



Writer's Direct Dial No. 727-820-5587

R. ALEXANDER GLENN
General Counsel – Florida

VIA HAND DELIVERY

October 9, 2009

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Application of Progress Energy Florida, Inc. for authority to issue and sell securities during the twelve months ending December 31, 2010.

Dear Ms. Cole:

Enclosed for filing is one (1) original certified, one copy and a CD-ROM of Progress Energy Florida, Inc.'s Application for authority to issue and sell securities during the twelve months ending December 31, 2010.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Thank you for your assistance in this matter.

Sincerely,

R. Alexander Glenn *lms*
R. Alexander Glenn

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RAG/lms
Enclosures

DOCUMENT NUMBER-DATE

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DOCKET NO. _____

FLORIDA PUBLIC SERVICE COMMISSION

TALLAHASSEE, FLORIDA

APPLICATION OF

FLORIDA POWER CORPORATION D/B/A

PROGRESS ENERGY FLORIDA, INC.

FOR AUTHORITY TO ISSUE AND SELL

SECURITIES DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2010

PURSUANT TO SECTION 366.04, FLORIDA STATUTES,

AND CHAPTER 25-8, FLORIDA ADMINISTRATIVE CODE

Address communications in connection with this Application to:

Thomas R. Sullivan
Treasurer
Progress Energy Florida, Inc.
c/o Progress Energy, Inc.
410 S. Wilmington Street
Raleigh, NC 27601

R. Alexander Glenn
General Counsel
Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

Dated: October 5, 2009

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF FLORIDA
POWER CORPORATION D/B/A
PROGRESS ENERGY FLORIDA,
INC. FOR AUTHORITY TO ISSUE
AND SELL SECURITIES DURING
THE TWELVE MONTHS ENDING
DECEMBER 31, 2010 PURSUANT
TO SECTION 366.04, FLORIDA
STATUTES, AND CHAPTER 25-8,
FLORIDA ADMINISTRATIVE CODE.

The Applicant, Florida Power Corporation d/b/a Progress Energy Florida, Inc., (herein called the "Company"), respectfully requests authority from the Florida Public Service Commission (herein called the "Commission"), to issue, sell or otherwise incur during 2010 up to \$1.5 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned below). Additionally, the Company requests authority to issue, sell or otherwise incur during 2010 and 2011 up to \$1.0 billion outstanding at any time of short-term debt securities and other obligations, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating to not more than five percent of the par value of the Company's other outstanding securities.

The Company is wholly-owned by Florida Progress Corporation (“Florida Progress”), which is wholly-owned by Progress Energy, Inc. (“Progress Energy”). The Company hereby applies for requisite authority for these proposed financings, pursuant to Section 366.04, Florida Statutes, by submitting the following information in the manner and form described in Chapter 25-8, Florida Administrative Code, including the required Exhibits A-C.

CONTENTS OF APPLICATION

(1) The exact name of the Company and address of its principal business office is as follows:

Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

(2) The Company was incorporated in Florida in 1899 and reincorporated in Florida in 1943. The Company is continuing its corporate existence pursuant to its Amended Articles of Incorporation (the “Articles of Incorporation”), a copy of which was filed as Exhibit A to the Application of Florida Power Corporation for Authority To Issue And Sell Securities During The Twelve Months Ending December 31, 1994 (Docket No. 931029-EI) and is incorporated herein by reference. The Company’s financial statement schedules required under Sections 25-8.003 (1)(a)-(b), Florida Administrative Code, are filed herewith as Exhibits A (6)(i) and (ii) and B(1) and (2), respectively.

(3) The name and address of the persons authorized to receive notices and communications with respect to this Application are as follows:

Thomas R. Sullivan
Treasurer
Progress Energy Florida, Inc.
c/o Progress Energy, Inc.
410 S. Wilmington Street
Raleigh, NC 27601

R. Alexander Glenn
General Counsel
Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

(4) (a) A statement detailing information concerning each class and series of the Company's capital stock and long-term debt is contained in Exhibit C attached hereto.

(b) The amount held as reacquired securities: The Company does not hold any reacquired securities. From time to time, the Company has redeemed certain outstanding first mortgage bonds and shares of its cumulative preferred stock, but such bonds and shares are canceled upon redemption or reacquisition. Under the Company's Articles of Incorporation, all or any Shares of Preferred Stock or Preference Stock redeemed or acquired by the Company may thereafter be issued or otherwise disposed of at any time, subject to limitations imposed by law and in the Articles of Incorporation.

(c) The amount pledged by the applicant: From time to time, the Company issues first mortgage bonds that are secured by the lien of its Indenture, dated as of January 1, 1944 with The Bank of New York Mellon (formerly JPMorgan Chase Bank, N.A.) as successor trustee, as supplemented by supplemental indentures (the "Mortgage"). The Mortgage constitutes a first mortgage lien, subject only to permitted encumbrances and liens, on substantially all of the fixed properties owned by the Company except miscellaneous properties that are specifically excepted. After-acquired property is covered by the lien of the Mortgage, subject to existing liens at the time such property is acquired.

(d) The amount owned by affiliated corporations: All of the Company's outstanding common stock (100 shares) is owned by the Company's parent, Florida Progress.

The Company has no other stock or debt owned by affiliated corporations. See section (10) hereof.

(e) The amount held in any fund: None.

(5) The Company seeks authority to issue and sell and/or exchange equity securities and issue, sell, exchange and/or assume short-term or long-term debt securities and/or to assume liabilities or obligations as guarantor, endorser or surety during the period covered by the Application. The Company ultimately may issue any combination of the types of securities described below, subject to the aggregate dollar limitations requested in this Application.

(a)(1) The kind and the nature of the securities that the Company seeks authority to issue and sell during 2010 (and 2011 with respect to short-term debt securities and obligations) are equity securities and short-term and long-term debt securities and other obligations, including, but not limited to, borrowings from banks which are participants in credit facilities the Company may establish from time to time, uncommitted bank facilities and affiliate loans which are available through Progress Energy's utility money pool facility. The Company also seeks authority to enter into interest rate derivative contracts to remove financial risk associated with its existing and future debt obligations.

The equity securities that the Company may issue include cumulative preferred stock, preference stock, or warrants, options or rights to acquire such securities, or other equity securities, with such par values, terms and conditions and relative rights and preferences as are deemed appropriate by the Company and permitted by its Articles of Incorporation, as they may be amended from time to time.

The Company also may enter into preferred securities financings that may have various structures, including a structure whereby the Company would establish and make an equity investment in a special purpose trust, limited partnership or other entity. The entity would offer preferred securities to the public and lend the proceeds to the Company. The Company would issue debt securities to the entity equal to the aggregate of its equity investment and the amount of preferred securities issued. The Company may also guarantee, among other things, the distributions to be paid by the entity to the holders of the preferred securities.

Short-term debt securities and obligations may include notes to be sold in the commercial paper market (“commercial paper”), loans from affiliates and bank loans, credit agreements or other forms of securities and debt obligations, with maturities of less than one year.

The long-term debt securities and obligations may take the form of first mortgage bonds, debentures, medium-term notes or other notes, loans from affiliates and bank loans, installment contracts, credit agreements, securitization of storm cost and other receivables or other forms of securities and debt obligations, whether secured or unsecured, with maturities greater than one year. In addition, the Company may enter into options, rights, interest rate swaps or other derivative instruments. The Company also may enter into installment purchase and security agreements, loan agreements, or other arrangements with political subdivisions of the State of Florida or pledge debt securities or issue guarantees in connection with such political subdivisions’ issuance, for the ultimate benefit of the Company, or pollution control revenue bonds, solid waste disposal revenue bonds, industrial development revenue bonds, variable rate demand notes, or other “private activity bonds” with maturities ranging from one to forty years,

or bond anticipation notes. Such obligations may or may not bear interest exempt from federal tax.

The Company also may enter into nuclear fuel leases and various agreements that provide financial or performance assurances to third parties on behalf of the Company's subsidiaries. These agreements include guarantees, standby letters of credit and surety bonds. The agreements are entered into primarily to support or enhance the credit worthiness otherwise attributed to a subsidiary on a stand-alone basis. Specific purposes of the agreements include supporting payments of trade payables, securing performance under contracts and lease obligations, providing workers' compensation coverage, obtaining licenses, permits and rights of way and supporting other payments that are subject to contingencies.

The manner of issuance and sale of securities will be dependent upon the type of securities being offered, the type of transaction in which the securities are being issued and sold and market conditions at the time of the issuance and sale. Securities may be issued through negotiated underwritten public offerings, public offerings at competitive biddings, private sales or sales through agents, and may be issued in both domestic and foreign markets. Credit agreements may be with banks or other lenders. The Company's commercial paper will be for terms up to but not exceeding nine months from the date of issuance. The commercial paper may be sold at a discount, including the underwriting discount of the commercial paper dealer, at rates comparable to interest rates being paid in the commercial paper market by borrowers of similar creditworthiness. The Company plans to refund, retire or redeem from time to time outstanding commercial paper and short-term borrowings, which mature on a regular basis, with preferred stock, first mortgage bonds, medium-term notes, or other long-term securities and debt obligations.

(a)(2) Contemplated to be included as a long-term or short-term debt securities, as appropriate, are borrowings from banks and other lenders under the Company's credit facilities, as those may be entered into and amended from time to time. The Company's current facility is a \$450 million five-year revolving credit agreement with a group of banks. Borrowings under the facility are available for general corporate purposes, including support of the Company's commercial paper program. The current five-year facility will expire on March 28, 2011.

(b) The maximum principal amount of short-term securities and obligations proposed to be issued, sold, or otherwise incurred during 2010 and 2011 is \$1.0 billion outstanding at any time, including commercial paper, bank loans or money pool borrowings, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating not more than five percent of the par value of the Company's other outstanding securities. The maximum principal amount of equity securities, long-term debt securities and other long-term obligations (exclusive of bank loans issued under the Company's long-term credit facilities as mentioned above) proposed to be issued, sold, or otherwise incurred during 2010 is \$1.5 billion.

In connection with this Application, the Company confirms that the capital raised pursuant to this Application will be used in connection with the activities of the Company and not the unregulated activities of its affiliates.

The Company will file a consummation report with the Commission in compliance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2010 calendar year to report any securities issued during that year.

(c) On September 30, 2009, the estimate of the potential range of interest rates for securities proposed to be issued by the Company were as follows:

- | | | |
|----|---|----------------|
| 1. | 10-year to 30-year BBB+ rated senior unsecured debt: | 6.25% - 8.25% |
| 2. | 10-year to 30-year A- rated first mortgage bonds: | 5.50% - 7.50% |
| 3. | Second-tier 30-day to 60-day commercial paper sold through dealers (on a bond equivalent basis)*: | 1.00 % - 5.00% |

* Prior to fees.

The actual rates to be paid by the Company during 2010 will be determined by the market conditions at the time of issuance.

(6) The net proceeds to be received from the sale of the additional securities will be added to the Company's general funds and may be used to provide additional electric facilities during 2010 pursuant to the Company's construction program, to repay maturing long-term debt or short-term unsecured debt, to refund, retire or redeem existing obligations, or for other corporate purposes.

A more detailed statement of the Projected Sources and Uses of Funds during 2010 is included as Exhibit B(1) attached hereto. The Company's construction program is developed from its long-range plan to determine needed construction faculties. While the final 2010 Construction Budget is not yet available, the Company's most recently approved construction expenditures forecast excluding Allowance for Funds Used During Construction ("AFUDC") for 2010 is approximately \$1.6 billion. A detailed listing of this 2010 construction

program excluding AFUDC is found in Exhibit B(2) attached hereto. These construction estimates are subject to periodic review and revision to adjust for such factors as changing economic conditions, environmental requirements, regulatory matters and changing customer usage patterns.

(7) Based on the reasons shown in sections (5) and (6) above, the Company submits that the proposed financings are consistent with proper performance by the Company of service as a public utility, will enable and permit the Company to perform that service, are compatible with the public interest and are reasonably necessary and appropriate for such purposes.

(8) R. Alexander Glenn, General Counsel for the Company, or his duly appointed successor, will pass upon the legality of the securities involved herein. His office address is:

Progress Energy Florida, Inc.
299 1st Avenue N., Suite 151
St. Petersburg, FL 33701

(9) Except for those issuances of securities that are exempt from the registration requirements of the Securities Act of 1933, the issue and sale of the various securities involved herein will require the filing of Registration Statements with the United States Securities and Exchange Commission ("SEC"), 100 F Street, NE, Washington, D.C. 20549. A copy of each Registration Statement that has been or will be filed with the SEC will be included in the Company's annual Consummation Report relating to the sale of securities registered thereunder. No other state or federal regulatory body has jurisdiction over the transactions proposed herein, although certain state securities or "blue sky" laws may require the filing of registration

statements, consents to service or process or other documents with applicable state securities commissions, including in particular the Florida Division of Securities, 200 E. Gaines Street, Tallahassee, FL 32399; the Nevada Department of State, Securities Division, 555 East Washington Avenue, Suite 5200, Las Vegas, NV 89101; the New York State Office of the Attorney General, Investor Protection Bureau, 120 Broadway, 23rd Floor, New York, NY 10271; and the Oregon Department of Consumer & Business Services, Division of Finance and Corporate Securities, Labor & Industries Building, 350 Winter St. NE, Room 410, Salem, OR 97301.

(10) The measure of control or ownership exercised by or over the Company by any other public utility is set forth below. The Company is a wholly owned subsidiary of Florida Progress, a public utility holding company. On November 30, 2000, all of the outstanding shares of Florida Progress common stock were acquired by CP&L Energy, Inc., a North Carolina corporation, which subsequently changed its name to Progress Energy, in a statutory share exchange pursuant to the terms of an Amended and Restated Agreement and Plan of Exchange dated as of August 22, 1999, Amended and Restated as of March 3, 2000 (the “Agreement”).

Following the closing of the share exchange, Progress Energy became a registered holding company under the Public Utility Holding Company Act of 1935 (the “Act”). On February 8, 2006, the Act was repealed, and the Public Utility Holding Company Act of 2005 (the “2005 Act”) was enacted. Progress Energy retained Florida Progress as a wholly owned subsidiary, and Florida Progress continues to own all of the issued and outstanding common stock of the Company. Thus, Progress Energy indirectly owns all of the common stock of the

Company. Florida Progress remains generally exempt from registration under the 2005 Act and attendant regulation because its utility operations are primarily intrastate.

(11) The following Exhibits are filed herewith and made a part hereof:

- | | |
|-------------------|---|
| Exhibit A (6)(i) | The financial statements and accompanying footnotes as they appear in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, and filed with the SEC in file no. 1-15929 on March 2, 2009. |
| Exhibit A (6)(ii) | The financial statements and accompanying footnotes as they appear in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, and filed with the SEC in file no. 1-5929 on August 7, 2009. |
| Exhibit B(1) | Projected Sources and Uses of Funds Statement for 2010. |
| Exhibit B(2) | Preliminary Construction Expenditures for 2010. |
| Exhibit C | Capital Stock and Long-Term Debt of the Company as of September 30, 2009. |

WHEREFORE, the Company hereby respectfully requests that the Commission enter its Order approving this Application for authority to issue and sell securities during the twelve months ending December 31, 2010 and, more specifically, to order that:

- (a) The request of Progress Energy Florida, Inc. to issue and sell securities during the twelve months ending December 31, 2010, pursuant to Section 366.04, Florida Statutes, and Chapter 25-8, Florida Administrative Code (the "Application"), is granted;
- (b) Progress Energy Florida, Inc. is authorized to issue, sell, or otherwise incur during 2010 up to \$1.5 billion of any combination of equity securities and long-term debt securities and other long-term obligations (exclusive of bank loans issued under


the Company's long-term credit facilities as mentioned above). Additionally, the Company requests authority to issue, sell or otherwise incur during 2010 and 2011 up to \$1.0 billion outstanding at any time of short-term debt securities and other obligations, which amount shall be in addition to and in excess of the amount the Company is authorized to issue pursuant to Section 366.04, Florida Statutes, which permits the Company to issue short-term securities aggregating to not more than five percent of the par value of the Company's other outstanding securities.

- (c) The kind and nature of the securities that Progress Energy Florida, Inc. is authorized to issue during 2010 (and 2011 with respect to short-term debt securities and obligations) are equity securities and short-term and long-term debt securities and other obligations, as set forth in the Company's Application;
- (d) Progress Energy Florida, Inc. shall file a Consummation Report in accordance with Rule 25-8.009, Florida Administrative Code, within 90 days after the close of the 2010 calendar year.

[The remainder of this page was intentionally left blank.]

Respectfully submitted this
5th day of October, 2009

PROGRESS ENERGY FLORIDA, INC.

By: 
Thomas R. Sullivan
Treasurer


*[Signature page for Progress Energy Florida, Inc.'s 2010 Application for
Authority to Issue and Sell Securities]*

GENCO380


STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

CERTIFICATION OF APPLICATION AND EXHIBITS

Each of the undersigned, Jeffrey M. Stone and Thomas R. Sullivan, being first duly sworn, deposes and says that he is the Chief Accounting Officer and the Treasurer, respectively, of Progress Energy Florida, Inc., the Applicant herein; that he has read the foregoing Application and exhibits of said Progress Energy Florida, Inc. and knows the contents thereof; and certifies that the same are true and correct to the best of his knowledge and belief.



Jeffrey M. Stone
Chief Accounting Officer

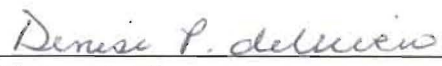


Thomas R. Sullivan
Treasurer

STATE OF NORTH CAROLINA)
)
COUNTY OF WAKE)

The foregoing instrument was acknowledged before me this 5th day of October, 2009, by Jeffrey M. Stone and Thomas R. Sullivan, who are personally known to me and who did take an oath.

[SEAL]



Notary Public

Denise P. DeVivero

Printed Name

My Commission Expires:

July 30, 2010

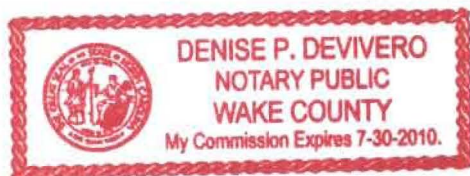


EXHIBIT A (6)(i)

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

The following financial statements, supplementary data and financial statement schedules are included herein:

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Each of the preceding combined notes to the financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF.

<u>Registrant</u>	<u>Applicable Notes</u>
PEC	1, 2, 4 through 9, 11 through 14, 16 through 22 and 24
PEF	1, 2, 4 through 9, 11 through 14, 16 through 22 and 24

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF PROGRESS ENERGY, INC.:

We have audited the accompanying consolidated balance sheets of Progress Energy, Inc., and its subsidiaries (the Company) at December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2, 14 and 16 to the consolidated financial statements, on January 1, 2008 the Company adopted Financial Accounting Standards Board Staff Position No. FIN 39-1, on January 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48 and on December 31, 2006 the Company adopted Statement of Financial Accounting Standards No. 158.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting at December 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 2, 2009, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
March 2, 2009

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of INCOME

(in millions except per share data)

Years ended December 31	2008	2007	2006
Operating revenues	\$9,167	\$9,153	\$8,724
Operating expenses			
Fuel used in electric generation	3,021	3,145	3,008
Purchased power	1,299	1,184	1,100
Operation and maintenance	1,820	1,842	1,583
Depreciation, amortization and accretion	839	905	1,011
Taxes other than on income	508	501	500
Other	(3)	30	35
Total operating expenses	7,484	7,607	7,237
Operating income	1,683	1,546	1,487
Other income (expense)			
Interest income	24	34	59
Allowance for equity funds used during construction	122	51	21
Other, net	(17)	(7)	(37)
Total other income, net	129	78	43
Interest charges			
Interest charges	679	605	631
Allowance for borrowed funds used during construction	(40)	(17)	(7)
Total interest charges, net	639	588	624
Income from continuing operations before income tax and minority interest	1,173	1,036	906
Income tax expense	395	334	339
Minority interest in subsidiaries' income, net of tax	(5)	(9)	(16)
Income from continuing operations	773	693	551
Discontinued operations, net of tax	57	(189)	20
Net income	\$830	\$504	\$571
Average common shares outstanding – basic	260	256	250
Basic earnings per common share			
Income from continuing operations	\$2.97	\$2.71	\$2.20
Discontinued operations, net of tax	0.22	(0.74)	0.08
Net income	\$3.19	\$1.97	\$2.28
Diluted earnings per common share			
Income from continuing operations	\$2.96	\$2.70	\$2.20
Discontinued operations, net of tax	0.22	(0.74)	0.08
Net income	\$3.18	\$1.96	\$2.28
Dividends declared per common share	\$2.465	\$2.445	\$2.425

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

(in millions)

December 31	2008	2007
ASSETS		
Utility plant		
Utility plant in service	\$26,326	\$25,327
Accumulated depreciation	(11,298)	(10,895)
Utility plant in service, net	15,028	14,432
Held for future use	38	37
Construction work in progress	2,745	1,765
Nuclear fuel, net of amortization	482	371
Total utility plant, net	18,293	16,605
Current assets		
Cash and cash equivalents	180	255
Receivables, net	867	1,122
Inventory	1,239	994
Regulatory assets	533	154
Derivative collateral posted	353	—
Income taxes receivable	194	24
Assets to be divested	—	52
Prepayments and other current assets	154	201
Total current assets	3,520	2,802
Deferred debits and other assets		
Regulatory assets	2,567	946
Nuclear decommissioning trust funds	1,089	1,384
Miscellaneous other property and investments	446	448
Goodwill	3,655	3,655
Derivative assets	1	119
Other assets and deferred debits	302	379
Total deferred debits and other assets	8,060	6,931
Total assets	\$29,873	\$26,338
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 264 million and 260 million shares issued and outstanding, respectively	\$6,206	\$6,028
Unearned ESOP shares (1 million and 2 million shares, respectively)	(25)	(37)
Accumulated other comprehensive loss	(116)	(34)
Retained earnings	2,622	2,438
Total common stock equity	8,687	8,395
Preferred stock of subsidiaries – not subject to mandatory redemption	93	93
Minority interest	6	84
Long-term debt, affiliate	272	271
Long-term debt, net	10,387	8,466
Total capitalization	19,445	17,309
Current liabilities		
Current portion of long-term debt	—	877
Short-term debt	1,050	201
Accounts payable	912	819
Interest accrued	167	173
Dividends declared	164	160
Customer deposits	282	255
Regulatory liabilities	6	173
Derivative liabilities	493	57
Liabilities to be divested	—	8
Other current liabilities	412	579
Total current liabilities	3,486	3,302
Deferred credits and other liabilities		
Noncurrent income tax liabilities	818	361
Accumulated deferred investment tax credits	127	139
Regulatory liabilities	2,181	2,554
Asset retirement obligations	1,471	1,378
Accrued pension and other benefits	1,594	763
Capital lease obligations	231	239
Derivative liabilities	269	17
Other liabilities and deferred credits	251	276
Total deferred credits and other liabilities	6,942	5,727
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$29,873	\$26,338

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Years ended December 31	2008	2007	2006
Operating activities			
Net income	\$830	\$504	\$571
Adjustments to reconcile net income to net cash provided by operating activities			
Impairment of assets	—	—	174
Depreciation, amortization and accretion	957	1,026	1,190
Deferred income taxes and investment tax credits, net	411	177	(251)
Deferred fuel (credit) cost	(333)	117	396
Deferred income	—	(128)	(69)
Allowance for equity funds used during construction	(122)	(51)	(21)
Other adjustments to net income	66	175	109
Cash provided (used) by changes in operating assets and liabilities			
Receivables	233	(186)	59
Inventory	(237)	(11)	(168)
Derivative collateral posted	(340)	55	(52)
Prepayments and other current assets	7	35	(81)
Income taxes, net	(169)	(275)	197
Accounts payable	77	(40)	34
Other current liabilities	(103)	81	10
Other assets and deferred debits	(44)	(198)	(70)
Other liabilities and deferred credits	(15)	(29)	(27)
Net cash provided by operating activities	1,218	1,252	2,001
Investing activities			
Gross property additions	(2,333)	(1,973)	(1,572)
Nuclear fuel additions	(222)	(228)	(114)
Proceeds from sales of discontinued operations and other assets, net of cash divested	72	675	1,657
Purchases of available-for-sale securities and other investments	(1,590)	(1,413)	(2,452)
Proceeds from available-for-sale securities and other investments	1,534	1,452	2,631
Other investing activities	(2)	30	(23)
Net cash (used) provided by investing activities	(2,541)	(1,457)	127
Financing activities			
Issuance of common stock	132	151	185
Dividends paid on common stock	(642)	(627)	(607)
Payments of short-term debt with original maturities greater than 90 days	(176)	—	—
Proceeds from issuance of short-term debt with original maturities greater than 90 days	29	176	—
Net increase (decrease) in short-term debt	1,096	25	(175)
Proceeds from issuance of long-term debt, net	1,797	739	397
Retirement of long-term debt	(877)	(324)	(2,200)
Cash distributions to minority interests of consolidated subsidiaries	(85)	(10)	(79)
Other financing activities	(26)	65	11
Net cash provided (used) by financing activities	1,248	195	(2,468)
Net decrease in cash and cash equivalents	(75)	(10)	(340)
Cash and cash equivalents at beginning of year	255	265	605
Cash and cash equivalents at end of year	\$180	\$255	\$265
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$612	\$585	\$698
Income taxes, net of refunds	152	176	311
Significant noncash transactions			
Capital lease obligation incurred	—	182	54
Note receivable for disposal of ownership interest in Ceredo	—	48	—
Accrued property additions	334	329	231

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of CHANGES in COMMON STOCK EQUITY

	Common Stock Outstanding		Unearned ESOP	Accumulated Other Comprehensive	Retained	Total Common
(in millions except per share data)	Shares	Amount	Shares	(Loss) Income	Earnings	Stock Equity
Balance, December 31, 2005, as restated						
(See Note 1B)	252	\$5,571	\$(63)	\$(104)	\$2,607	\$8,011
Net income		—	—	—	571	571
Other comprehensive loss		—	—	(18)	—	(18)
Comprehensive income						553
Adjustment to initially apply SFAS No. 158, net of tax		—	—	73	—	73
Issuance of shares	4	70	—	—	—	70
Stock options exercised		115	—	—	—	115
Purchase of restricted stock		(8)	—	—	—	(8)
Allocation of ESOP shares		13	13	—	—	26
Stock-based compensation expense		30	—	—	—	30
Dividends (\$2.425 per share)		—	—	—	(611)	(611)
Balance, December 31, 2006, as restated						
(See Note 1B)	256	5,791	(50)	(49)	2,567	8,259
Net income		—	—	—	504	504
Other comprehensive income		—	—	15	—	15
Comprehensive income						519
Adjustment to initially apply FASB Interpretation No. 48		—	—	—	(2)	(2)
Issuance of shares	4	46	—	—	—	46
Stock options exercised		105	—	—	—	105
Allocation of ESOP shares		15	13	—	—	28
Stock-based compensation expense		71	—	—	—	71
Dividends (\$2.445 per share)		—	—	—	(631)	(631)
Balance, December 31, 2007, as restated						
(See Note 1B)	260	6,028	(37)	(34)	2,438	8,395
Net income		—	—	—	830	830
Other comprehensive loss		—	—	(82)	—	(82)
Comprehensive income						748
Issuance of shares	4	131	—	—	—	131
Stock options exercised		1	—	—	—	1
Allocation of ESOP shares		13	12	—	—	25
Stock-based compensation expense		33	—	—	—	33
Dividends (\$2.465 per share)		—	—	—	(646)	(646)
Balance, December 31, 2008	264	\$6,206	\$(25)	\$(116)	\$2,622	\$8,687

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

PROGRESS ENERGY, INC.

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

(in millions)

Years ended December 31	2008	2007	2006
Net income	\$830	\$504	\$571
Other comprehensive income (loss)			
Reclassification adjustments included in net income			
Change in cash flow hedges (net of tax (expense) benefit of \$(2), \$(3) and \$28, respectively)	3	4	(46)
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$1 and \$1, respectively)	1	2	—
Net unrealized losses on cash flow hedges (net of tax benefit of \$24, \$8 and \$16, respectively)	(37)	(13)	(23)
Net unrecognized items on pension and other postretirement benefits (net of tax benefit (expense) of \$29 and \$(16), respectively)	(49)	23	—
Minimum pension liability adjustment (net of tax expense of \$30)	—	—	48
Other (net of tax benefit of \$1, \$3 and \$-, respectively)	—	(1)	3
Other comprehensive (loss) income	(82)	15	(18)
Comprehensive income	\$748	\$519	\$553

See Notes to Progress Energy, Inc. Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.:

We have audited the accompanying consolidated balance sheets of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc., and its subsidiaries (PEC) at December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the consolidated financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. PEC is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PEC at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2, 14 and 16 to the consolidated financial statements, on January 1, 2008 the Company adopted Financial Accounting Standards Board Staff Position No. FIN 39-1, on January 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48 and on December 31, 2006 the Company adopted Statement of Financial Accounting Standards No. 158.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
March 2, 2009

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of INCOME*(in millions)*

Years ended December 31	2008	2007	2006
Operating revenues	\$4,429	\$4,385	\$4,086
Operating expenses			
Fuel used in electric generation	1,346	1,381	1,173
Purchased power	346	302	334
Operation and maintenance	1,030	1,024	930
Depreciation, amortization and accretion	518	519	571
Taxes other than on income	198	192	191
Other	(5)	(2)	–
Total operating expenses	3,433	3,416	3,199
Operating income	996	969	887
Other income			
Interest income	12	21	25
Allowance for equity funds used during construction	27	10	4
Other, net	4	6	21
Total other income, net	43	37	50
Interest charges			
Interest charges	219	215	217
Allowance for borrowed funds used during construction	(12)	(5)	(2)
Total interest charges, net	207	210	215
Income before income tax	832	796	722
Income tax expense	298	295	265
Net income	534	501	457
Preferred stock dividend requirement	3	3	3
Net income available to common stockholders	\$531	\$498	\$454

See Notes to PEC Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED BALANCE SHEETS*(in millions)*

December 31	2008	2007
ASSETS		
Utility plant		
Utility plant in service	\$15,698	\$15,117
Accumulated depreciation	(7,352)	(7,097)
Utility plant in service, net	8,346	8,020
Held for future use	3	2
Construction work in progress	660	566
Nuclear fuel, net of amortization	376	292
Total utility plant, net	9,385	8,880
Current assets		
Cash and cash equivalents	18	25
Receivables, net	502	446
Receivables from affiliated companies	29	42
Notes receivable from affiliated companies	55	—
Inventory	633	510
Deferred fuel cost	207	148
Income taxes receivable	98	8
Prepayments and other current assets	28	60
Total current assets	1,570	1,239
Deferred debits and other assets		
Regulatory assets	1,243	680
Nuclear decommissioning trust funds	672	804
Miscellaneous other property and investments	197	192
Other assets and deferred debits	98	160
Total deferred debits and other assets	2,210	1,836
Total assets	\$13,165	\$11,955
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	\$2,083	\$2,054
Unearned ESOP common stock	(25)	(37)
Accumulated other comprehensive loss	(35)	(10)
Retained earnings	2,278	1,745
Total common stock equity	4,301	3,752
Preferred stock – not subject to mandatory redemption	59	59
Long-term debt, net	3,509	3,183
Total capitalization	7,869	6,994
Current liabilities		
Current portion of long-term debt	—	300
Short-term debt	110	—
Notes payable to affiliated companies	—	154
Accounts payable	377	308
Payables to affiliated companies	82	71
Interest accrued	59	58
Customer deposits	82	70
Derivative liabilities	82	19
Other current liabilities	173	190
Total current liabilities	965	1,170
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,111	936
Accumulated deferred investment tax credits	115	122
Regulatory liabilities	987	1,098
Asset retirement obligations	1,122	1,063
Accrued pension and other benefits	856	459
Other liabilities and deferred credits	140	113
Total deferred credits and other liabilities	4,331	3,791
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$13,165	\$11,955

See Notes to PEC Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of CASH FLOWS*(in millions)*

Years ended December 31	2008	2007	2006
Operating activities			
Net income	\$534	\$501	\$457
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	616	608	656
Deferred income taxes and investment tax credits, net	204	41	(59)
Deferred fuel (credit) cost	(71)	48	(8)
Allowance for equity funds used during construction	(27)	(10)	(4)
Other adjustments to net income	45	(37)	(19)
Cash (used) provided by changes in operating assets and liabilities			
Receivables	(61)	(16)	33
Receivables from affiliated companies	13	(15)	9
Inventory	(119)	(10)	(69)
Prepayments and other current assets	4	(17)	10
Income taxes, net	(116)	(37)	(24)
Accounts payable	42	33	59
Payables to affiliated companies	11	(37)	32
Other current liabilities	34	(29)	(16)
Other assets and deferred debits	7	(28)	38
Other liabilities and deferred credits	(55)	23	(1)
Net cash provided by operating activities	1,061	1,018	1,094
Investing activities			
Gross property additions	(760)	(757)	(705)
Nuclear fuel additions	(179)	(184)	(102)
Purchases of available-for-sale securities and other investments	(682)	(603)	(896)
Proceeds from available-for-sale securities and other investments	626	622	1,006
Changes in advances to affiliated companies	(55)	24	(24)
Other investing activities	8	6	(1)
Net cash used by investing activities	(1,042)	(892)	(722)
Financing activities			
Dividends paid on preferred stock	(3)	(3)	(3)
Dividends paid to parent	—	(143)	(339)
Net increase (decrease) in short-term debt	110	—	(73)
Proceeds from issuance of long-term debt, net	322	—	—
Retirement of long-term debt	(300)	(200)	—
Changes in advances from affiliated companies	(154)	154	(11)
Contributions from parent	15	21	—
Other financing activities	(16)	(1)	—
Net cash used by financing activities	(26)	(172)	(426)
Net decrease in cash and cash equivalents	(7)	(46)	(54)
Cash and cash equivalents at beginning of year	25	71	125
Cash and cash equivalents at end of year	\$18	\$25	\$71
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$193	\$210	\$210
Income taxes, net of refunds	211	291	347
Significant noncash transactions			
Accrued property additions	99	87	104

See Notes to PEC Consolidated Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of CHANGES in COMMON STOCK EQUITY

<i>(in millions)</i>	Common Stock <u>Outstanding</u>		Unearned ESOP	Accumulated Other	Retained Earnings	Total Common Stock Equity
	Shares	Amount	Common Stock	Comprehensive (Loss) Income		
Balance, December 31, 2005, as restated (See Note 1B)	160	\$1,981	\$(63)	\$(120)	\$1,293	\$3,091
Net income		—	—	—	457	457
Other comprehensive income		—	—	36	—	36
Comprehensive income						493
Adjustment to initially apply SFAS No. 158, net of tax		—	—	83	—	83
Stock-based compensation expense		10	—	—	—	10
Allocation of ESOP shares		19	13	—	—	32
Preferred stock dividends at stated rates		—	—	—	(3)	(3)
Dividends paid to parent		—	—	—	(339)	(339)
Tax benefit dividend		—	—	—	(4)	(4)
Balance, December 31, 2006, as restated (See Note 1B)	160	2,010	\$(50)	(1)	1,404	3,363
Net income		—	—	—	501	501
Other comprehensive loss		—	—	(9)	—	(9)
Comprehensive income						492
Adjustment to initially apply FASB Interpretation No. 48		—	—	—	(6)	(6)
Stock-based compensation expense		24	—	—	—	24
Allocation of ESOP shares		20	13	—	—	33
Preferred stock dividends at stated rates		—	—	—	(3)	(3)
Dividends paid to parent		—	—	—	(143)	(143)
Tax benefit dividend		—	—	—	(8)	(8)
Balance, December 31, 2007, as restated (See Note 1B)	160	2,054	(37)	(10)	1,745	3,752
Net income		—	—	—	534	534
Other comprehensive loss		—	—	(25)	—	(25)
Comprehensive income						509
Stock-based compensation expense		13	—	—	—	13
Allocation of ESOP shares		16	12	—	—	28
Preferred stock dividends at stated rates		—	—	—	(3)	(3)
Tax benefit dividend		—	—	—	2	2
Balance, December 31, 2008	160	\$2,083	\$(25)	\$(35)	\$2,278	\$4,301

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.

CONSOLIDATED STATEMENTS of COMPREHENSIVE INCOME

<i>(in millions)</i>	2008	2007	2006
Years ended December 31			
Net income	\$534	\$501	\$457
Other comprehensive income (loss)			
Reclassification adjustments included in net income			
Change in cash flow hedges (net of tax expense of \$1)	1	—	—
Net unrealized losses on cash flow hedges (net of tax benefit of \$17, \$4 and \$2, respectively)	(26)	(5)	(2)
Minimum pension liability adjustment (net of tax expense of \$23)	—	—	36
Other (net of tax benefit of \$-, \$1 and \$1, respectively)	—	(4)	2
Other comprehensive (loss) income	(25)	(9)	36
Comprehensive income	\$509	\$492	\$493

See Notes to PEC Consolidated Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDER OF FLORIDA POWER CORPORATION d/b/a
PROGRESS ENERGY FLORIDA, INC.:

We have audited the accompanying balance sheets of Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) at December 31, 2008 and 2007, and the related statements of income, comprehensive income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. PEF is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PEF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of PEF at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Notes 2, 14 and 16 to the financial statements, on January 1, 2008 the Company adopted Financial Accounting Standards Board Staff Position No. FIN 39-1, on January 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48 and on December 31, 2006 the Company adopted Statement of Financial Accounting Standards No. 158.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
March 2, 2009

STATEMENTS of INCOME*(in millions)*

Years ended December 31	2008	2007	2006
Operating revenues	\$4,731	\$4,749	\$4,639
Operating expenses			
Fuel used in electric generation	1,675	1,764	1,835
Purchased power	953	882	766
Operation and maintenance	813	834	684
Depreciation, amortization and accretion	306	366	404
Taxes other than on income	309	309	309
Other	(5)	8	(2)
Total operating expenses	4,051	4,163	3,996
Operating income	680	586	643
Other income (expense)			
Interest income	9	9	15
Allowance for equity funds used during construction	95	41	17
Other, net	(10)	(2)	(4)
Total other income, net	94	48	28
Interest charges			
Interest charges	236	185	155
Allowance for borrowed funds used during construction	(28)	(12)	(5)
Total interest charges, net	208	173	150
Income before income tax	566	461	521
Income tax expense	181	144	193
Net income	385	317	328
Preferred stock dividend requirement	2	2	2
Net income available to common stockholders	\$383	\$315	\$326

See Notes to PEF Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

BALANCE SHEETS

(in millions)

December 31	2008	2007
ASSETS		
Utility plant		
Utility plant in service	\$10,449	\$10,025
Accumulated depreciation	(3,885)	(3,738)
Utility plant in service, net	6,564	6,287
Held for future use	35	35
Construction work in progress	2,085	1,199
Nuclear fuel, net of amortization	106	79
Total utility plant, net	8,790	7,600
Current assets		
Cash and cash equivalents	19	23
Receivables, net	362	351
Receivables from affiliated companies	15	8
Notes receivable from affiliated companies	—	149
Inventory	606	484
Regulatory assets	326	6
Derivative assets	9	83
Derivative collateral posted	335	—
Prepayments and other current assets	130	83
Total current assets	1,802	1,187
Deferred debits and other assets		
Regulatory assets	1,324	266
Nuclear decommissioning trust funds	417	580
Miscellaneous other property and investments	37	46
Derivative assets	1	100
Prepaid pension cost	—	221
Other assets and deferred debits	100	63
Total deferred debits and other assets	1,879	1,276
Total assets	\$12,471	\$10,063
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	\$1,116	\$1,109
Accumulated other comprehensive loss	(1)	(8)
Retained earnings	2,284	1,901
Total common stock equity	3,399	3,002
Preferred stock – not subject to mandatory redemption	34	34
Long-term debt, net	4,182	2,686
Total capitalization	7,615	5,722
Current liabilities		
Current portion of long-term debt	—	532
Short-term debt	371	—
Notes payable to affiliated companies	72	—
Accounts payable	514	473
Payables to affiliated companies	55	87
Interest accrued	51	57
Customer deposits	200	185
Regulatory liabilities	6	173
Derivative liabilities	380	38
Other current liabilities	122	92
Total current liabilities	1,771	1,637
Deferred credits and other liabilities		
Noncurrent income tax liabilities	634	401
Accumulated deferred investment tax credits	12	17
Regulatory liabilities	1,076	1,330
Asset retirement obligations	349	315
Accrued pension and other benefits	494	304
Capital lease obligations	216	224
Derivative liabilities	209	9
Other liabilities and deferred credits	95	104
Total deferred credits and other liabilities	3,085	2,704
Commitments and contingencies (Notes 21 and 22)		
Total capitalization and liabilities	\$12,471	\$10,063

See Notes to PEF Financial Statements.

STATEMENTS of CASH FLOWS*(in millions)*

Years ended December 31	2008	2007	2006
Operating activities			
Net income	\$385	\$317	\$328
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, amortization and accretion	320	385	433
Deferred income taxes and investment tax credits, net	130	(44)	(48)
Deferred fuel (credit) cost	(262)	69	404
Allowance for equity funds used during construction	(95)	(41)	(17)
Other adjustments to net income	40	77	36
Cash (used) provided by changes in operating assets and liabilities			
Receivables	(26)	(8)	(39)
Receivables from affiliated companies	(7)	3	—
Inventory	(122)	(35)	(128)
Derivative collateral posted	(323)	47	(47)
Prepayments and other current assets	(15)	25	10
Income taxes, net	—	3	(56)
Accounts payable	48	43	19
Payables to affiliated companies	(32)	(29)	15
Other current liabilities	(10)	35	20
Other assets and deferred debits	(8)	(44)	13
Other liabilities and deferred credits	28	(4)	(50)
Net cash provided by operating activities	51	799	893
Investing activities			
Gross property additions	(1,552)	(1,214)	(727)
Nuclear fuel additions	(43)	(44)	(12)
Purchases of available-for-sale securities and other investments	(782)	(640)	(625)
Proceeds from available-for-sale securities and other investments	784	640	625
Changes in advances to affiliated companies	149	(149)	—
Proceeds from sales of assets to affiliated companies	12	—	—
Other investing activities	(7)	5	4
Net cash used by investing activities	(1,439)	(1,402)	(735)
Financing activities			
Dividends paid on preferred stock	(2)	(2)	(2)
Dividends paid to parent	—	—	(234)
Net increase (decrease) in short-term debt	371	—	(102)
Proceeds from issuance of long-term debt, net	1,475	739	—
Retirement of long-term debt	(532)	(89)	(48)
Changes in advances from affiliated companies	72	(47)	34
Other financing activities	—	2	(1)
Net cash provided (used) by financing activities	1,384	603	(353)
Net decrease in cash and cash equivalents	(4)	—	(195)
Cash and cash equivalents at beginning of year	23	23	218
Cash and cash equivalents at end of year	\$19	\$23	\$23
Supplemental disclosures			
Cash paid during the year			
Interest, net of amount capitalized	\$205	\$149	\$152
Income taxes, net of refunds	52	184	296
Significant noncash transactions			
Capital lease obligation incurred	—	182	54
Accrued property additions	231	238	119

See Notes to PEF Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of CHANGES in COMMON STOCK EQUITY

<i>(in millions except shares outstanding)</i>	Common Stock Outstanding		Accumulated Other Comprehensive	Retained	Total
	Shares	Amount	Loss	Earnings	Common Stock Equity
Balance, December 31, 2005	100	\$1,097	\$—	\$1,498	\$2,595
Net income		—	—	328	328
Other comprehensive loss		—	(1)	—	(1)
Comprehensive income					327
Stock-based compensation expense		3	—	—	3
Preferred stock dividends at stated rates		—	—	(2)	(2)
Dividends paid to parent		—	—	(234)	(234)
Tax benefit dividend		—	—	(2)	(2)
Balance, December 31, 2006	100	1,100	(1)	1,588	2,687
Net income		—	—	317	317
Other comprehensive loss		—	(7)	—	(7)
Comprehensive income					310
Stock-based compensation expense		9	—	—	9
Preferred stock dividends at stated rates		—	—	(2)	(2)
Tax benefit dividend		—	—	(2)	(2)
Balance, December 31, 2007	100	1,109	(8)	1,901	3,002
Net income		—	—	385	385
Other comprehensive income		—	7	—	7
Comprehensive income					392
Stock-based compensation expense		7	—	—	7
Preferred stock dividends at stated rates		—	—	(2)	(2)
Balance, December 31, 2008	100	\$1,116	\$ (1)	\$2,284	\$3,399

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

STATEMENTS of COMPREHENSIVE INCOME

<i>(in millions)</i>			
Years ended December 31	2008	2007	2006
Net income	\$385	\$317	\$328
Other comprehensive income (loss)			
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of \$(5), \$5 and \$1, respectively)	7	(7)	(1)
Other comprehensive income (loss)	7	(7)	(1)
Comprehensive income	\$392	\$310	\$327

See Notes to PEF Financial Statements.

COMBINED NOTES TO FINANCIAL STATEMENTS

In this report, Progress Energy, which includes Progress Energy, Inc. holding company (the Parent) and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as “we,” “us” or “our.” When discussing Progress Energy’s financial information, it necessarily includes the results of PEC and PEF (collectively, the Utilities). The term “Progress Registrants” refers to each of the three separate registrants: Progress Energy, PEC and PEF. The information in these combined notes relates to each of the Progress Registrants as noted in the Index to the Combined Notes. However, neither of the Utilities makes any representation as to information related solely to Progress Energy or the subsidiaries of Progress Energy other than itself.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

PROGRESS ENERGY, INC.

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity. The Corporate and Other segment primarily includes amounts applicable to the activities of the Parent and Progress Energy Service Company (PESC) and other miscellaneous nonregulated businesses that do not separately meet the quantitative disclosure requirements as a separate business segment.

See Note 19 for further information about our segments.

PEC

PEC is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. PEC’s subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF

PEF is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in west central Florida. PEF is subject to the regulatory provisions of the Florida Public Service Commission (FPSC), the NRC and the FERC.

B. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and include the activities of the Parent and our majority-owned and controlled subsidiaries. The Utilities are subsidiaries of Progress Energy, and as such their financial condition and results of operations and cash flows are also consolidated, along with our nonregulated subsidiaries, in our consolidated financial statements. Noncontrolling interests in subsidiaries along with the income or loss attributed to these interests are included in minority interest in both the Consolidated Balance Sheets and in the Consolidated Statements of Income. The results of operations for minority interest are reported on a net of tax basis if the underlying subsidiary is structured as a taxable entity.

Unconsolidated investments in companies over which we do not have control, but have the ability to exercise influence over operating and financial policies, are accounted for under the equity method of accounting. These investments are primarily in limited liability corporations and limited liability partnerships, and the earnings from these investments are recorded on a pre-tax basis (See Note 20). Other investments are stated principally at cost. These equity and cost method investments are included in miscellaneous other property and investments in the Consolidated Balance Sheets. See Note 12 for more information about our investments.

Significant intercompany balances and transactions have been eliminated in consolidation except as permitted by Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), which provides that profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of the sales price through the ratemaking process is probable.

Our presentation of operating, investing and financing cash flows combines the respective cash flows from our continuing and discontinued operations as permitted under SFAS No. 95, "Statement of Cash Flows."

These combined notes accompany and form an integral part of Progress Energy's and PEC's consolidated financial statements and PEF's financial statements.

Certain amounts for 2007 and 2006 have been reclassified to conform to the 2008 presentation.

RESTATEMENT

During the preparation of our December 31, 2008 financial statements, we identified an error in accounting for our and PEC's unbilled revenue. The cumulative impact of this error on beginning retained earnings and common stock equity at December 31, 2005, was a decrease of \$27 million.

PROGRESS ENERGY

The following table reflects the effects of the restatement on the Consolidated Statements of Changes in Common Stock Equity as of December 31, 2006:

(in millions)	As Previously Reported	Restatement Adjustments	As Restated
Retained earnings	\$2,594	\$(27)	\$2,567
Total common stock equity	8,286	(27)	8,259

The following table reflects the effects of the restatement on the Consolidated Balance Sheet and Consolidated Statement of Changes in Common Stock Equity as of December 31, 2007:

(in millions)	As Previously Reported	Restatement Adjustments	As Restated
Receivables, net	\$1,167	\$(45)	\$1,122
Prepayments and other current assets	183	18	201
Total current assets	2,829	(27)	2,802
Total assets	26,365	(27)	26,338
Retained earnings	2,465	(27)	2,438
Total common stock equity	8,422	(27)	8,395
Total capitalization	17,336	(27)	17,309
Total capitalization and liabilities	26,365	(27)	26,338

Our net income for the years ended December 31, 2008, 2007 and 2006 was not materially impacted by this error; accordingly no income adjustments have been recorded.

The following table reflects the effects of the restatement on the PEC Consolidated Statements of Changes in Common Stock Equity as of December 31, 2006:

(in millions)	As Previously Reported	Restatement Adjustments	As Restated
Retained earnings	\$1,431	\$(27)	\$1,404
Total common stock equity	3,390	(27)	3,363

The following table reflects the effects of the restatement on the PEC Consolidated Balance Sheet and Consolidated Statement of Changes in Common Stock Equity as of December 31, 2007:

(in millions)	As Previously Reported	Restatement Adjustments	As Restated
Receivables, net	\$491	\$(45)	\$446
Prepayments and other current assets	42	18	60
Total current assets	1,266	(27)	1,239
Total assets	11,982	(27)	11,955
Retained earnings	1,772	(27)	1,745
Total common stock equity	3,779	(27)	3,752
Total capitalization	7,021	(27)	6,994
Total capitalization and liabilities	11,982	(27)	11,955

PEC's net income for the years ended December 31, 2008, 2007 and 2006 was not materially impacted by this error; accordingly no income adjustments have been recorded.

C. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities (VIEs) for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN 46R).

In general, we determine whether we are the primary beneficiary of a VIE through a qualitative analysis of risk which identifies which variable interest holder absorbs the majority of the financial risk and variability of the VIE. In performing this analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity. If the qualitative analysis is inconclusive, a specific quantitative analysis is performed in accordance with FIN 46R.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 140-4 and FIN 46R-8, "Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities," which is effective for Progress Energy on December 31, 2008. This FSP amended the disclosure requirements of FIN 46R. The Progress Registrants' disclosures required by the FSP are presented below. For purposes of these disclosures, the maximum loss amounts represent the maximum exposure that would be absorbed by the Progress Registrants in the event that all of the assets of the VIE are deemed worthless, including any additional costs that the Progress Registrants would incur.

PROGRESS ENERGY

In addition to the variable interests listed below for PEC and PEF, Progress Energy, through its subsidiary Progress Fuels Corporation (Progress Fuels), is the primary beneficiary of, and consolidates, Ceredo Synfuel, LLC (Ceredo), a coal-based solid synthetic fuels production facility that qualified for federal tax credits under Section 45K of the Internal Revenue Code (the Code). In March 2007, we disposed of our 100 percent ownership interest in Ceredo to a third-party buyer. Ceredo ceased operations upon expiration of the synthetic fuels tax credit program at the end of 2007. Our variable interests in Ceredo are comprised of an agreement to operate the Ceredo facility on behalf of the buyer through December 2007 and certain legal and tax indemnifications provided to the buyer. We performed a qualitative analysis to determine the primary beneficiary of Ceredo. The primary factors in the analysis were the estimated levels of production of qualifying synthetic fuels in 2007, the final value of the related 2007 synthetic fuels tax credits, the likelihood of a full or partial phase-out of the 2007 synthetic fuels tax credits due to high oil prices, our exposure to certain variable costs under the facility operating agreement and exposure from indemnifications provided to the buyer. There were no changes to our assessment of the primary beneficiary during 2007 or 2008. No financial or other support has been provided to Ceredo during the periods presented. At December 31, 2008, we had no assets and \$20 million of liabilities related to the legal and tax indemnifications provided to the buyer included in other liabilities and deferred credits in the Progress Energy Consolidated Balance Sheets. The ultimate resolution of the indemnifications could result in adjustments to the loss on disposal in future periods. The creditors of Ceredo do not have recourse to the general credit of Progress Energy. See Note 3J for additional information on the disposal of Ceredo and Note 22C for a general discussion of guarantees.

PEC

VARIABLE INTEREST ENTITIES FOR WHICH PEC IS THE PRIMARY BENEFICIARY

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Code. PEC's variable interests are debt and equity investments in the two VIEs. PEC performed quantitative analyses to determine the primary beneficiaries of the two VIEs. The primary factors in the analyses were the estimated economic lives of the partnerships and their net cash flow projections, estimates of available tax credits, and the likelihood of default on debt and other commitments. There were no changes to PEC's assessment of the primary beneficiary during 2006 through 2008. No financial or other support has been provided to the VIEs during the periods presented. At December 31, 2008, PEC had assets of \$40 million, substantially all of which was reflected in miscellaneous other property and investment, and \$16 million in long-term debt, \$7 million in other liabilities and deferred credits and \$4 million in accounts payable in the PEC Consolidated Balance Sheets related to the two VIEs. The assets of the two VIEs are collateral for, and can only be used to settle, their obligations. The creditors of these VIEs do not have recourse to the general credit of PEC and there are no other arrangements that could expose PEC to losses.

OTHER VARIABLE INTERESTS

PEC has an equity investment in, and consolidates, one limited partnership investment fund that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. The investment fund accounts for the 17 partnerships on the equity method of accounting. PEC also has an interest in one power plant resulting from long-term power purchase contracts. PEC's only significant exposure to variability from the power purchase contracts results from fluctuations in the market price of fuel used by the entity's plants to produce the power purchased by PEC. We are able to recover these fuel costs under PEC's fuel clause. Total purchases from this counterparty were \$44 million, \$39 million and \$45 million in 2008, 2007 and 2006, respectively. The generation capacity of the entity's power plant is approximately 847 megawatts (MW). PEC has requested the necessary information to determine if the investment fund's 17 partnerships and the power plant owner are VIEs or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC, and, accordingly, PEC has applied the information scope exception in FIN 46R, paragraph 4(g), to the 17 partnerships and the power plant. PEC believes that if it is determined to be the primary beneficiary of these entities, the effect of consolidating the power plant and the investment fund consolidating the 17 partnerships would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparties, the impact cannot be determined at this time.

The following information is provided for PEF's significant variable interests in VIEs for which PEF is not the primary beneficiary:

PEF has a prepayment clause in a building capital lease with a special purpose entity that is a VIE. In accordance with the lease agreement, PEF is not required to make any lease payments over the last 20 years of the lease, during which period \$51 million of rental expense will be recorded in the PEF Statements of Income. The prepayment clause is PEF's only variable interest in the VIE and, therefore, PEF's exposure to loss primarily relates to the recovery of the prepayments through future use of the rental property. PEF performed qualitative and quantitative analyses and concluded that it is not the primary beneficiary of the VIE. The primary factors in the analyses were the lease term, the fact that the lease payments are not variable interests, the likelihood of construction and casualty risks to the building and the existence of insurance to offset those risks, and the estimated fair value of the building at the end of the lease term. There were no changes to PEF's assessment of the primary beneficiary during 2006 through 2008. No financial or other support has been provided to the VIE during the periods presented. At December 31, 2008, PEF had a \$4 million prepayment included in prepayments and other current assets on the PEF Balance Sheets. No liabilities associated with the prepayment clause were recorded. The aggregate maximum exposure to loss at December 31, 2008, is \$51 million, which represents the loss if the maximum prepayment of rent at the end of year 20 was not recovered through future use of the rental property or from third-party insurers at that time.

PEF has a residual value guarantee in an operating railcar lease agreement with a special purpose entity that is a VIE. The lease agreement has an early termination clause that permits PEF to terminate the lease in certain circumstances. If PEF terminates the lease in accordance with the agreement, it must sell the railcars and remit the proceeds to the lessor plus any amount for which the residual value guarantee exceeds the realized value of the equipment. The residual value guarantee is PEF's primary variable interest in the VIE and, therefore, PEF's exposure to loss is from the potential decrease in the fair value of the railcars. PEF performed qualitative and quantitative analyses and concluded that it is not the primary beneficiary of the VIE. The primary factors in the analyses were the terms of the lease, the probability of exercising the early termination clause, and the estimated fair value of the railcars. There were no changes to PEF's assessment of the primary beneficiary during 2006 through 2008. No financial or other support has been provided to the VIE during the periods presented. No liabilities associated with the residual value guarantee were recorded as of December 31, 2008, because the early termination clause was not exercised. The aggregate maximum exposure to loss at December 31, 2008, is \$18 million, which represents the maximum loss if the early termination clause were exercised in 2009 and the related railcars were deemed worthless.

D. SIGNIFICANT ACCOUNTING POLICIES

USE OF ESTIMATES AND ASSUMPTIONS

In preparing consolidated financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and amounts of revenues and expenses reflected during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

We recognize revenue when it is realized or realizable and earned when all of the following criteria are met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our price to the buyer is fixed or determinable; and collectability is reasonably assured. We recognize electric utility revenues as service is rendered to customers. Operating revenues include unbilled electric utility base revenues earned when service has been delivered but not billed by the end of the accounting period. Customer prepayments are recorded as deferred revenue and recognized as revenues as the services are provided.

FUEL COST DEFERRALS

Fuel expense includes fuel costs or other recoveries that are deferred through fuel clauses established by the Utilities' regulators. These clauses allow the Utilities to recover fuel costs, fuel-related costs and portions of purchased power costs through surcharges on customer rates. These deferred fuel costs are recognized in revenues and fuel expenses as they are billable to customers.

EXCISE TAXES

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis. The amount of gross receipts tax, franchise taxes and other excise taxes included in operating revenues and taxes other than on income in the statements of income for the years ended December 31 were as follows:

(in millions)	2008	2007	2006
Progress Energy	\$295	\$299	\$293
PEC	102	99	94
PEF	193	200	199

STOCK-BASED COMPENSATION

As discussed in Note 9B, we account for stock-based compensation utilizing the modified prospective transition method per the fair value recognition provisions of SFAS No. 123R, "Share-Based Payment" (SFAS No. 123R).

RELATED PARTY TRANSACTIONS

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with PUHCA 2005. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general costs that cannot be directly attributed. In the subsidiaries' financial statements, billings from affiliates are capitalized or expensed depending on the nature of the services rendered.

UTILITY PLANT

Utility plant in service is stated at historical cost less accumulated depreciation. We capitalize all construction-related direct labor and material costs of units of property as well as indirect construction costs. Certain costs that would otherwise not be capitalized under GAAP are capitalized in accordance with regulatory treatment. The cost of renewals and betterments is also capitalized. Maintenance and repairs of property (including planned major maintenance activities), and replacements and renewals of items determined to be less than units of property, are charged to maintenance expense as incurred, with the exception of nuclear outages at PEF. Pursuant to a regulatory order, PEF accrues for nuclear outage costs in advance of scheduled outages, which occur every two years. The cost of units of property replaced or retired, less salvage, is charged to accumulated depreciation. Removal or disposal costs that do not represent asset retirement obligations (AROs) under SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143), are charged to a regulatory liability.

Allowance for funds used during construction (AFUDC) represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform system of accounts, AFUDC is charged to the cost of the plant. The equity funds portion of AFUDC is credited to other income, and the borrowed funds portion is credited to interest charges.

DEPRECIATION AND AMORTIZATION – UTILITY PLANT

Substantially all depreciation of utility plant other than nuclear fuel is computed on the straight-line method based on the estimated remaining useful life of the property, adjusted for estimated salvage (See Note 4A). Pursuant to their rate-setting authority, the NCUC, SCPSC and FPSC can also grant approval to accelerate or reduce depreciation and amortization rates of utility assets (See Note 7).

Amortization of nuclear fuel costs is computed primarily on the units-of-production method. In the Utilities' retail jurisdictions, provisions for nuclear decommissioning costs are approved by the NCUC, the SCPSC and the FPSC and are based on site-specific estimates that include the costs for removal of all radioactive and other structures at the site. In the wholesale jurisdictions, the provisions for nuclear decommissioning costs are approved by the FERC.

The North Carolina Clean Smokestacks Act (Clean Smokestacks Act) was enacted in 2002 and froze North Carolina electric utility base rates for a five-year period, which ended in December 2007. Subsequent to 2007, PEC's current North Carolina base rates are continuing subject to traditional cost-based rate regulation. During the rate freeze period, the legislation provided for the amortization and recovery of 70 percent of the original estimated compliance costs for the Clean Smokestacks Act while providing significant flexibility in the amount of annual amortization recorded from none up to \$174 million per year. In September 2008, the NCUC approved PEC's request to terminate any further accelerated amortization of its Clean Smokestacks compliance costs (See Note 7B).

ASSET RETIREMENT OBLIGATIONS

We account for AROs, which represent legal obligations associated with the retirement of certain tangible long-lived assets, in accordance with SFAS No. 143. The present values of retirement costs for which we have a legal obligation are recorded as liabilities with an equivalent amount added to the asset cost and depreciated over the useful life of the associated asset. The liability is then accreted over time by applying an interest method of allocation to the liability. Accretion expense is included in depreciation, amortization and accretion in the Consolidated Statements of Income. The adoption of SFAS No. 143 and FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an Interpretation of FASB Statement No. 143" (FIN 47) had no impact on the income of the Utilities as the effects were offset by the establishment of regulatory assets and regulatory liabilities pursuant to SFAS No. 71 (See Note 7A) and in accordance with orders issued by the NCUC, the SCPSC and the FPSC.

CASH AND CASH EQUIVALENTS

We consider cash and cash equivalents to include unrestricted cash on hand, cash in banks and temporary investments purchased with an original maturity of three months or less.

INVENTORY

We account for inventory, including emission allowances, using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. Materials and supplies are charged to inventory when purchased and then expensed or capitalized to plant, as appropriate, when installed. Materials reserves are established for excess and obsolete inventory.

REGULATORY ASSETS AND LIABILITIES

The Utilities' operations are subject to SFAS No. 71, which allows a regulated company to record costs that have been or are expected to be allowed in the ratemaking process in a period different from the period in which the costs would be charged to expense by a nonregulated enterprise. Accordingly, the Utilities record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for nonregulated entities. These regulatory assets and liabilities represent expenses deferred for future recovery from customers or obligations to be refunded to customers and are primarily classified in the Consolidated Balance Sheets as regulatory assets and regulatory liabilities (See Note 7A). The regulatory assets and liabilities are amortized consistent with the treatment of the related cost in the ratemaking process.

NUCLEAR COST DEFERRALS

PEF accounts for costs incurred in connection with the proposed nuclear expansion in Florida in accordance with FPSC regulations, which establish an alternative cost-recovery mechanism. PEF is allowed to accelerate the recovery of prudently incurred siting, preconstruction costs, AFUDC and incremental operation and maintenance expenses resulting from the siting, licensing, design and construction of a nuclear plant through PEF's capacity cost-recovery clause, which is similar to, and works in conjunction with, energy payments recovered through PEF's fuel cost-recovery clause. Unrecovered nuclear costs eligible for accelerated recovery are deferred and recorded as regulatory assets in the Consolidated Balance Sheets and are amortized in the period the costs are collected from customers.

GOODWILL AND INTANGIBLE ASSETS

Goodwill is subject to at least an annual assessment for impairment by applying a two-step, fair value-based test. This assessment could result in periodic impairment charges. Intangible assets are amortized based on the economic benefit of their respective lives.

UNAMORTIZED DEBT PREMIUMS, DISCOUNTS AND EXPENSES

Long-term debt premiums, discounts and issuance expenses are amortized over the terms of the debt issues. Any expenses or call premiums associated with the reacquisition of debt obligations by the Utilities are amortized over the applicable lives using the straight-line method consistent with ratemaking treatment (See Note 7A).

INCOME TAXES

We and our affiliates file a consolidated federal income tax return. The consolidated income tax of Progress Energy is allocated to PEC and PEF in accordance with the Intercompany Income Tax Allocation Agreement (Tax Agreement). The Tax Agreement provides an allocation that recognizes positive and negative corporate taxable income. The Tax Agreement provides for an equitable method of apportioning the carryover of uncompensated tax benefits, which primarily relate to deferred synthetic fuels tax credits. Income taxes are provided for as if PEC and PEF filed separate returns.

Deferred income taxes have been provided for temporary differences. These occur when there are differences between the book and tax carrying amounts of assets and liabilities. Investment tax credits related to regulated operations have been deferred and are being amortized over the estimated service life of the related properties. Credits for the production and sale of synthetic fuels are deferred credits to the extent they cannot be or have not been utilized in the annual consolidated federal income tax returns, and are included in income tax expense (benefit) of discontinued operations in the Consolidated Statements of Income. We accrue for uncertain tax positions when it is determined that it is more likely than not that the benefit will not be sustained on audit by the taxing authority, including resolutions of any related appeals or litigation processes, based solely on the technical merits of the associated tax position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount of the tax benefit that, in our judgment, is greater than 50 percent likely to be realized. Interest expense on tax deficiencies and uncertain tax positions is included in net interest charges, and tax penalties are included in other, net in the Consolidated Statements of Income.

DERIVATIVES

We account for derivative instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities – An Amendment of FASB Statement No. 133," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 requires that an entity recognize all derivatives as assets or liabilities on the balance sheet and measure those instruments at fair value, unless the

derivatives meet the SFAS No. 133 criteria for normal purchases or normal sales and are designated as such. We generally designate derivative instruments as normal purchases or normal sales whenever the SFAS No. 133 criteria are met. If normal purchase or normal sale criteria are not met, we will generally designate the derivative instruments as cash flow or fair value hedges if the related SFAS No. 133 hedge criteria are met. In accordance with FSP No. FIN 39-1, "An Amendment of FIN 39, Offsetting of Amounts Related to Certain Contracts," (FSP FIN 39-1), we elect not to offset fair value amounts recognized for derivative instruments and related collateral assets and liabilities with the same counterparty under a master netting agreement. Certain economic derivative instruments receive regulatory accounting treatment, under which unrealized gains and losses are recorded as regulatory liabilities and assets, respectively, until the contracts are settled. See Note 17 for additional information regarding risk management activities and derivative transactions.

LOSS CONTINGENCIES AND ENVIRONMENTAL LIABILITIES

We accrue for loss contingencies in accordance with SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). Under SFAS No. 5, contingent losses such as unfavorable results of litigation are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Unless otherwise required by GAAP, we do not accrue legal fees when a contingent loss is initially recorded, but rather when the legal services are actually provided.

As discussed in Note 21, we accrue environmental remediation liabilities when the criteria for SFAS No. 5 have been met. We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. Environmental expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as additional information develops or circumstances change. Certain environmental expenses receive regulatory accounting treatment, under which the expenses are recorded as regulatory assets. Recoveries of environmental remediation costs from other parties are recognized when their receipt is deemed probable or on actual receipt of recovery. Environmental expenditures that have future economic benefits are capitalized in accordance with our asset capitalization policy.

IMPAIRMENT OF LONG-LIVED ASSETS AND INVESTMENTS

We account for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS No. 144). We review the recoverability of long-lived tangible and intangible assets whenever impairment indicators exist. Examples of these indicators include current period losses, combined with a history of losses or a projection of continuing losses, or a significant decrease in the market price of a long-lived asset group. If an impairment indicator exists for assets to be held and used, then the asset group is tested for recoverability by comparing the carrying value to the sum of undiscounted expected future cash flows directly attributable to the asset group. If the asset group is not recoverable through undiscounted cash flows or the asset group is to be disposed of, then an impairment loss is recognized for the difference between the carrying value and the fair value of the asset group.

We review our investments to evaluate whether or not a decline in fair value below the carrying value is an other-than-temporary decline. We consider various factors, such as the investee's cash position, earnings and revenue outlook, liquidity and management's ability to raise capital in determining whether the decline is other-than-temporary. If we determine that an other-than-temporary decline in value exists, the investments are written down to fair value with a new cost basis established.

2. NEW ACCOUNTING STANDARDS

Refer to Note 1C for information regarding our implementation of FIN 46R-8, “Disclosures by Public Entities (Enterprises) About Transfers of Financial Assets and Interests in Variable Interest Entities,” which is effective for Progress Energy on December 31, 2008, and which amended the disclosure requirements of FIN 46R.

FASB Staff Position No. FIN 39-1, "An Amendment of FIN 39, Offsetting of Amounts Related to Certain Contracts"

On January 1, 2008, we implemented FSP FIN 39-1, which allows a reporting entity to make an accounting election whether or not to offset fair value amounts recognized for derivative instruments and related collateral assets and liabilities with the same counterparty under a master netting agreement. Prior to the adoption of FSP FIN 39-1, we and the Utilities offset fair value amounts recognized for derivative instruments under master netting arrangements. FSP FIN 39-1 was implemented as a retrospective change in accounting principle and upon adoption, Progress Energy, PEC and PEF discontinued the offset of fair value amounts for such derivatives. The adoption of FSP FIN 39-1 did not have a material impact on our or the Utilities' financial position or results of operations.

Fair Value Measurements - Adoption of FASB Statements Nos. 157 and 159

Refer to Note 13B for information regarding our first quarter 2008 implementation of SFAS No. 157, “Fair Value Measurements” (SFAS No. 157).

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The decision about whether to elect the fair value option is applied on an instrument by instrument basis, is irrevocable (unless a new election date occurs) and is applied to the entire financial instrument. SFAS No. 159 was effective for us and the Utilities on January 1, 2008. We and the Utilities did not elect to adopt the fair value option for any financial instruments.

SFAS No. 141R, “Business Combinations”

In December 2007, the FASB issued SFAS Statement No. 141R, “Business Combinations” (SFAS No. 141R), which introduces significant changes in the accounting for business acquisitions. SFAS No. 141R considerably broadens the definition of a “business” and a “business combination,” which will result in an increased number of transactions or other events that will qualify as business combinations. This will affect us and the Utilities primarily in our assessment of VIEs. SFAS No. 141R amends FIN 46R to clarify that the initial consolidation of a business that is a VIE is a business combination in which the acquirer should recognize and measure the fair value of the acquiree as a whole, and the assets acquired and liabilities assumed at their full fair values as of the date control is obtained, regardless of the percentage ownership in the acquiree or how the acquisition was achieved. Other significant changes include the expensing of all acquisition-related transaction costs and most acquisition-related restructuring costs, the fair value remeasurement of certain earn-out arrangements and the discontinuance of the expense at acquisition of acquired-in-process research and development. SFAS No. 141R is effective for us for business combinations for which the acquisition date is on or after January 1, 2009. Earlier application is prohibited. We do not expect the adoption of SFAS No. 141R to have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51”

In conjunction with the issuance of SFAS No. 141R, in December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (SFAS No. 160), which introduces significant changes in the accounting for noncontrolling interests in a partially owned consolidated subsidiary. SFAS No. 160 also changes the accounting for and reporting for the deconsolidation of a subsidiary. SFAS No. 160 requires that a noncontrolling interest in a consolidated subsidiary be displayed in the consolidated statement of financial position as a separate component of equity rather than as a “mezzanine” item between liabilities and equity. SFAS No. 160 also requires that earnings attributed to the noncontrolling interests be reported as part of consolidated earnings, and requires disclosure of the attribution of consolidated earnings to the controlling

and noncontrolling interests on the face of the consolidated income statement. SFAS No. 160 must be adopted concurrently with the effective date of SFAS No. 141R, which for us is January 1, 2009. We do not expect the adoption of SFAS No. 160 to have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133"

In March 2008, the FASB issued SFAS Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161), which requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for us on January 1, 2009, and encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS No. 161 will change certain disclosures in the notes to the financial statements, but will have no impact on our or the Utilities' financial position or results of operations.

FSP No. SFAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets"

In December 2008, the FASB issued FSP No. SFAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets" (FSP SFAS 132R-1), which requires additional disclosures on the investment allocation decision making process, the fair value of each major category of plan assets and the inputs and valuation techniques used to remeasure the fair value of plan assets. FSP SFAS 132R-1 is effective for us on December 31, 2009. The adoption of FSP SFAS 132R-1 will change certain disclosures in the notes to the financial statements, but will have no impact on our or the Utilities' financial position or results of operations.

3. DIVESTITURES

A. TERMINALS OPERATIONS AND SYNTHETIC FUELS BUSINESSES

On March 7, 2008, we sold coal terminals and docks in West Virginia and Kentucky (Terminals) for \$71 million in gross cash proceeds. The coal terminals had a total annual capacity in excess of 40 million tons for transloading, blending and storing coal and other commodities. Proceeds from the sale were used for general corporate purposes. During the year ended December 31, 2008, we recorded an after-tax gain of \$42 million on the sale of these assets. The accompanying consolidated financial statements reflect the operations of Terminals as discontinued operations.

Prior to 2008, we had substantial operations associated with the production of coal-based solid synthetic fuels as defined under Section 29 (Section 29) of the Code and as redesignated effective 2006 as Section 45K of the Code (Section 45K and, collectively, Section 29/45K). The production and sale of these products qualified for federal income tax credits so long as certain requirements were satisfied. As a result of the expiration of the tax credit program, all of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007. The accompanying consolidated statements of income reflect the abandoned operations of our synthetic fuels businesses as discontinued operations.

Concurrent with the synthetic fuels intangibles impairment evaluation discussed in Note 8, we also performed an impairment evaluation of related long-lived assets during the second quarter of 2006. Based on the results of the impairment test, we recorded a pre-tax impairment charge of \$64 million (\$38 million after-tax) during the quarter ended June 30, 2006, which was reclassified to discontinued operations, net of tax on the Consolidated Statements of Income. This charge represented the entirety of the asset carrying value of our synthetic fuels manufacturing facilities, as well as a portion of the asset carrying value associated with the river terminals at which the synthetic fuels manufacturing facilities were located.

Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for each of the years ended December 31, 2007 and 2006 was \$1 million. We ceased recording depreciation upon classification of the assets as

discontinued operations in November 2007. After-tax depreciation expense during the years ended December 31, 2007 and 2006 was \$2 million and \$4 million, respectively.

Results of Terminals and the synthetic fuels businesses discontinued operations for the years ended December 31 were as follows:

(in millions)	2008	2007	2006
Revenues	\$17	\$1,126	\$847
Earnings (loss) before income taxes and minority interest	\$8	\$2	\$(179)
Income tax benefit, including tax credits	12	64	135
Minority interest share of (earnings) losses	(1)	17	7
Net earnings (loss) from discontinued operations	19	83	(37)
Gain on disposal of discontinued operations, including income tax expense of \$7	42	—	—
Earnings (loss) from discontinued operations	\$61	\$83	\$(37)

B. COAL MINING BUSINESSES

On March 7, 2008, we sold the remaining operations of Progress Fuels subsidiaries engaged in the coal mining business (Coal Mining) for gross cash proceeds of \$23 million. Proceeds from the sale were used for general corporate purposes. These assets included Powell Mountain Coal Co. and Dulcimer Land Co., which consisted of approximately 30,000 acres in Lee County, Va., and Harlan County, Ky. As a result of the sale, during the year ended December 31, 2008, we recorded an after-tax gain of \$7 million on the sale of these assets.

On May 1, 2006, we sold certain net assets of three of our coal mining businesses for gross proceeds of \$23 million plus a \$4 million working capital adjustment. As a result, during the year ended December 31, 2006, we recorded an after-tax loss of \$10 million on the sale of these assets.

The accompanying consolidated financial statements reflect the coal mining operations as discontinued operations. Interest expense has been allocated to discontinued operations based on the net assets of the coal mines, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for each of the years ended December 31, 2007 and 2006 was \$1 million. Results of discontinued operations for the coal mining businesses for the years ended December 31 were as follows:

(in millions)	2008	2007	2006
Revenues	\$2	\$28	\$84
Loss before income taxes	\$(13)	\$(17)	\$(11)
Income tax benefit	4	6	7
Net loss from discontinued operations	(9)	(11)	(4)
Gain (loss) on disposal of discontinued operations, including income tax (expense) benefit of \$(2) and \$16	7	—	(10)
Loss from discontinued operations	\$(2)	\$(11)	\$(14)

C. CCO – GEORGIA OPERATIONS

On March 9, 2007, our subsidiary, Progress Energy Ventures, Inc. (PVI), entered into a series of transactions to sell or assign substantially all of its Competitive Commercial Operations (CCO) physical and commercial assets and liabilities. Assets divested included approximately 1,900 MW of gas-fired generation assets in Georgia. The sale of the generation assets closed on June 11, 2007, for a net sales price of \$615 million. We recorded an estimated after-tax loss of \$226 million in December 2006. Based on the terms of the final agreement and post-closing adjustments, during the years ended December 31, 2008 and 2007, we incurred an additional \$2 million after-tax in losses and reversed \$18 million after-tax of the impairment recorded in 2006, respectively.

Additionally, on June 1, 2007, PVI closed the transaction involving the assignment of a contract portfolio consisting of full-requirements contracts with 16 Georgia electric membership cooperatives (the Georgia Contracts), forward gas and power contracts, gas transportation, structured power and other contracts to a third party. This represented substantially all of our nonregulated energy marketing and trading operations. As a result of the assignments, PVI made a net cash payment of \$347 million, which represented the net cost to assign the Georgia Contracts and other related contracts. In the year ended December 31, 2007, we recorded a charge associated with the costs to exit the Georgia Contracts, and other related contracts, of \$349 million after-tax (charge included in the net loss from discontinued operations in the table below). We used the net proceeds from the divestiture of CCO and the Georgia Contracts for general corporate purposes.

The accompanying consolidated financial statements reflect the operations of CCO as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the years ended December 31, 2007 and 2006 was \$11 million and \$36 million, respectively. We ceased recording depreciation upon classification of the assets as discontinued operations in December 2006. After-tax depreciation expense was \$14 million for the year ended December 31, 2006. Results of discontinued operations for CCO for the years ended December 31 were as follows:

(in millions)	2008	2007	2006
Revenues	\$—	\$407	\$754
Loss before income taxes	\$(5)	\$(449)	\$(92)
Income tax benefit	2	166	35
Net loss from discontinued operations	(3)	(283)	(57)
(Loss) gain on disposal of discontinued operations, including income tax (expense) benefit of \$(2), \$7 and \$123, respectively	(2)	18	(226)
Loss from discontinued operations	\$(5)	\$(265)	\$(283)

D. NATURAL GAS DRILLING AND PRODUCTION

On October 2, 2006, we sold our natural gas drilling and production business (Gas) for approximately \$1.1 billion in net proceeds. Gas included Winchester Production Company, Ltd., Westchester Gas Company, Texas Gas Gathering and Talco Midstream Assets Ltd.; all were subsidiaries of Progress Fuels Corporation, formerly Electric Fuels Corporation (Progress Fuels). Proceeds from the sale were used primarily to reduce holding company debt and for other corporate purposes.

Based on the net proceeds associated with the sale, we recorded an after-tax net gain on disposal of \$300 million during the year ended December 31, 2006. We recorded an after-tax loss of \$2 million during the year ended December 31, 2007, primarily related to working capital adjustments.

The accompanying consolidated financial statements reflect the operations of Gas as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated was \$13 million for the year ended December 31, 2006. We ceased recording depreciation upon classification of the assets as discontinued operations in July 2006. After-tax depreciation expense was \$16 million for the year ended December 31, 2006. Results of discontinued operations for Gas for the years ended December 31 were as follows:

(in millions)	2007	2006
Revenues	\$—	\$192
Earnings before income taxes	\$—	\$135
Income tax benefit (expense)	4	(53)
Net earnings from discontinued operations	4	82
(Loss) gain on disposal of discontinued operations, including income tax benefit (expense) of \$1 and \$(188), respectively	(2)	300
Earnings from discontinued operations	\$2	\$382

E. CCO – DESOTO AND ROWAN GENERATION FACILITIES

On May 8, 2006, we entered into definitive agreements to divest of two subsidiaries of PVI, DeSoto County Generating Co., LLC (DeSoto) and Rowan County Power, LLC (Rowan), including certain existing power supply contracts to Southern Power Company, a subsidiary of Southern Company, for gross purchase prices of approximately \$80 million and \$325 million, respectively. DeSoto owned a 320-MW dual-fuel combustion turbine electric generation facility in DeSoto County, Fla., and Rowan owned a 925-MW dual-fuel combined cycle and combustion turbine electric generation facility in Rowan County, N.C. We used the proceeds from the sales to reduce debt and for other corporate purposes.

The sale of DeSoto closed in the second quarter of 2006 and the sale of Rowan closed during the third quarter of 2006. Based on the gross proceeds associated with the sales, we recorded an after-tax loss on disposal of \$67 million during the year ended December 31, 2006.

The accompanying consolidated financial statements reflect the operations of DeSoto and Rowan as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated was \$6 million for the year ended December 31, 2006. We ceased recording depreciation upon classification of the assets as discontinued operations in May 2006. After-tax depreciation expense during the year ended December 31, 2006, was \$3 million. Results of discontinued operations for DeSoto and Rowan for the year ended December 31 were as follows:

(in millions)	2006
Revenues	\$64
Earnings before income taxes	\$15
Income tax expense	(5)
Net earnings from discontinued operations	10
Loss on disposal of discontinued operations, including income tax benefit of \$37	(67)
Loss from discontinued operations	\$(57)

F. PROGRESS TELECOM, LLC

On March 20, 2006, we completed the sale of Progress Telecom, LLC (PT LLC) to Level 3 Communications, Inc. We received gross proceeds comprised of cash of \$69 million and approximately 20 million shares of Level 3 Communications, Inc. common stock valued at an estimated \$66 million on the date of the sale. Our net proceeds from the sale of approximately \$70 million, after consideration of minority interest, were used to reduce debt. Prior to the sale, we had a 51 percent interest in PT LLC. See Note 20 for a discussion of the subsequent sale of the Level 3 Communications, Inc. stock in 2006.

Based on the net proceeds associated with the sale and after consideration of minority interest, we recorded an after-tax net gain on disposal of \$28 million during the year ended December 31, 2006.

The accompanying consolidated financial statements reflect the operations of PT LLC as discontinued operations. Results of discontinued operations for PT LLC for the year ended December 31 were as follows:

(in millions)	2006
Revenues	\$18
Earnings before income taxes and minority interest	\$7
Income tax expense	(4)
Minority interest share of earnings	(5)
Net loss from discontinued operations	(2)
Gain on disposal of discontinued operations, including income tax expense of \$8 and minority interest of \$35	28
Earnings from discontinued operations	\$26

In connection with the sale, PEC and PEF provided indemnification against costs associated with certain asset performances to Level 3 Communications, Inc. See general discussion of guarantees at Note 22C. The ultimate resolution of these matters could result in adjustments to the gain on sale in future periods.

G. DIXIE FUELS AND OTHER FUELS BUSINESS

On March 1, 2006, we sold Progress Fuels' 65 percent interest in Dixie Fuels Limited (Dixie Fuels) to Kirby Corporation for \$16 million in cash. Dixie Fuels operates a fleet of four ocean-going dry-bulk barge and tugboat units. Dixie Fuels primarily transported coal from the lower Mississippi River to Progress Energy's Crystal River facility. We recorded an after-tax gain of \$2 million on the sale of Dixie Fuels during the year ended December 31, 2006. During the years ended December 31, 2008 and 2007, we recorded additional gains of \$1 million and \$2 million, respectively, primarily related to the expiration of indemnifications.

The accompanying consolidated financial statements reflect Dixie Fuels and the other fuels business as discontinued operations. Results of discontinued operations for Dixie Fuels and other fuels businesses for the years ended December 31 were as follows:

(in millions)	2008	2007	2006
Revenues	\$—	\$—	\$20
Earnings before income taxes	\$—	\$—	\$11
Income tax expense	—	—	(4)
Net earnings from discontinued operations	—	—	7
Gain on disposal of discontinued operations, including income tax benefit (expense) of \$1, \$(1) and \$(1), respectively	1	2	2
Earnings from discontinued operations	\$1	\$2	\$9

H. PROGRESS RAIL

We completed the sale of Progress Rail Services Corporation during the year ended December 31, 2005. As a result of certain legal, tax and environmental indemnifications provided by Progress Fuels and Progress Energy, we continue to record adjustments to the loss on sale. During the year ended December 31, 2008, we recorded an after-tax gain on disposal of \$2 million. During the year ended December 31, 2006, we recorded an after-tax loss on disposal of \$6 million. The ultimate resolution of these matters could result in additional adjustments to the loss on sale in future periods. See general discussion of guarantees at Note 22C.

I. NET ASSETS TO BE DIVESTED

At December 31, 2007, the assets and liabilities of Terminals and the remaining assets and liabilities of Coal Mining were included in net assets to be divested. The major balance sheet classes included in assets and liabilities to be divested in the Consolidated Balance Sheets were as follows:

(in millions)	December 31, 2007
Inventory	\$6
Other current assets	2
Property, plant and equipment, net	38
Other assets	6
Assets to be divested	\$52
Accrued expenses	\$3
Long-term liabilities	5
Liabilities to be divested	\$8

J. CEREDO SYNTHETIC FUELS INTERESTS

On March 30, 2007, our Progress Fuels subsidiary disposed of its 100 percent ownership interest in Ceredo, a subsidiary that produced and sold qualifying coal-based solid synthetic fuels, to a third-party buyer. In addition, we entered into an agreement to operate the Ceredo facility on behalf of the buyer. At closing, we received cash proceeds of \$10 million and a nonrecourse note receivable of \$54 million. Payments on the note were received as we produced and sold qualifying coal-based solid synthetic fuels on behalf of the buyer. In accordance with the terms of the agreement, we received payments on the note related to 2007 production of \$49 million during the year ended December 31, 2007, and a final payment of \$5 million during the year ended December 31, 2008. The note had an interest rate equal to the three-month London Inter Bank Offering Rate (LIBOR) rate plus 1%. The estimated fair value of the note at the inception of the transaction was \$48 million. Under the terms of the agreement, the purchase price was reduced by \$7 million during the year ended December 31, 2008, based on the final value of the 2007 Section 29/45K tax credits.

During the year ended December 31, 2008, we recognized previously deferred gains on disposal of \$5 million based on the final value of the 2007 Section 29/45K tax credits. The operations of Ceredo ceased as of December 31, 2007, and are recorded as discontinued operations for all periods presented. See discussion of the abandonment of our synthetic fuels operations at Note 3A. In connection with the disposal, Progress Fuels and Progress Energy provided guarantees and indemnifications for certain legal and tax matters to the buyer. The ultimate resolution of these matters could result in adjustments to the loss on disposal in future periods. See general discussion of guarantees at Note 22C.

On the date of the transaction, the carrying value of the disposed ownership interest totaled \$37 million, which consisted primarily of the fair value of crude oil call options purchased in January 2007. Subsequent to the disposal, we remain the primary beneficiary of Ceredo and continue to consolidate Ceredo in accordance with FIN 46R, but record a 100 percent minority interest.

K. SYNTHETIC FUELS PARTNERSHIP INTERESTS

In two June 2004 transactions, Progress Fuels sold a combined 49.8 percent partnership interest in Colona Synfuel Limited Partnership, LLLP (Colona), one of its synthetic fuels facilities. Substantially all proceeds from the sales

were received over time, which is typical of such sales in the industry. Gains from the sales were recognized on a cost-recovery basis. The book value of the interests sold totaled approximately \$5 million. We recognized a gain on these transactions of \$4 million in the year ended December 31, 2006. In 2007, due to the increase in the price of oil that limits synthetic fuels tax credits, we did not record any additional gains. The operations of Colona are reflected in discontinued operations for all periods presented. See discussion of the abandonment of our synthetic fuels operations at Note 3A.

4. PROPERTY, PLANT AND EQUIPMENT

A. UTILITY PLANT

The balances of electric utility plant in service at December 31 are listed below, with a range of depreciable lives (in years) for each:

(in millions)	Depreciable Lives	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
		2008	2007	2008	2007	2008	2007
Production plant	7-43	\$14,117	\$13,765	\$9,249	\$8,968	\$4,689	\$4,612
Transmission plant	17-75	2,970	2,684	1,457	1,361	1,513	1,323
Distribution plant	13-55	8,028	7,676	4,330	4,147	3,698	3,529
General plant and other	5-35	1,211	1,202	662	641	549	561
Utility plant in service		\$26,326	\$25,327	\$15,698	\$15,117	\$10,449	\$10,025

Generally, electric utility plant at PEC and PEF, other than nuclear fuel, is pledged as collateral for the first mortgage bonds of PEC and PEF, respectively (See Note 11).

AFUDC represents the estimated costs of capital funds necessary to finance the construction of new regulated assets. As prescribed in the regulatory uniform systems of accounts, AFUDC is charged to the cost of the plant for certain projects in accordance with the regulatory provisions for each jurisdiction. The equity funds portion of AFUDC is credited to other income, and the borrowed funds portion is credited to interest charges. Regulatory authorities consider AFUDC an appropriate charge for inclusion in the rates charged to customers by the Utilities over the service life of the property. The composite AFUDC rate for PEC's electric utility plant was 9.2%, 8.8% and 8.7% in 2008, 2007 and 2006, respectively. The composite AFUDC rate for PEF's electric utility plant was 8.8% in 2008, 2007 and 2006.

Our depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.3%, 2.4% and 2.3% in 2008, 2007 and 2006, respectively. The depreciation provisions related to utility plant were \$578 million, \$560 million and \$533 million in 2008, 2007 and 2006, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4D), regulatory approved expenses (See Notes 7 and 21) and Clean Smokestacks Act amortization (See Note 7B).

PEC's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, were 2.1% for 2008, 2007 and 2006. The depreciation provisions related to utility plant were \$310 million, \$303 million and \$294 million in 2008, 2007 and 2006, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4D), regulatory approved expenses (See Note 7B) and Clean Smokestacks Act amortization (See Note 7B).

PEF's depreciation provisions on utility plant, as a percent of average depreciable property other than nuclear fuel, was 2.7% in 2008, 2007 and 2006. The depreciation provisions related to utility plant were \$268 million, \$257 million and \$239 million in 2008, 2007 and 2006, respectively. In addition to utility plant depreciation provisions, depreciation, amortization and accretion expense also includes decommissioning cost provisions, ARO accretion, cost of removal provisions (See Note 4D) and regulatory approved expenses (See Note 7C).

Amortization of nuclear fuel costs, including disposal costs associated with obligations to the U.S. Department of Energy (DOE) and costs associated with obligations to the DOE for the decommissioning and decontamination of enrichment facilities, was \$145 million, \$139 million and \$140 million for the years ended December 31, 2008, 2007 and 2006, respectively. This amortization expense is included in fuel used for electric generation in the Consolidated Statements of Income. Amortization of nuclear fuel costs for the years ended December 31, 2008, 2007 and 2006 was \$115 million, \$110 million and \$109 million, respectively, for PEC and \$30 million, \$29 million and \$31 million, respectively, for PEF.

At December 31, 2008, PEF reflected \$174 million of construction work in progress as recoverable regulatory assets pursuant to accelerated regulatory recovery of nuclear costs (See Note 7C).

B. DIVERSIFIED BUSINESS PROPERTY

Net diversified business property is included in miscellaneous other property and investments on our and PEC's Consolidated Balance Sheets. Diversified business property excludes amounts reclassified as assets to be divested (See Note 3I).

PROGRESS ENERGY

The balances of diversified business property at December 31 are listed below, with a range of depreciable lives for each:

(in millions)	2008	2007
Equipment (3-25 years)	\$5	\$6
Buildings (5-40 years)	9	9
Accumulated depreciation	(8)	(9)
Diversified business property, net	\$6	\$6

Diversified business depreciation expense was less than \$1 million, \$3 million and \$2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

PEC

Net diversified business property was \$6 million at December 31, 2008, and \$6 million at December 31, 2007. These amounts consist primarily of buildings and equipment that are being depreciated over periods ranging from 5 to 40 years. Accumulated depreciation was \$3 million and \$2 million at December 31, 2008 and 2007, respectively. Diversified business depreciation expense was less than \$1 million each in 2008, 2007 and 2006.

C. JOINT OWNERSHIP OF GENERATING FACILITIES

PEC and PEF hold ownership interests in certain jointly owned generating facilities. Each is entitled to shares of the generating capability and output of each unit equal to their respective ownership interests. Each also pays its ownership share of additional construction costs, fuel inventory purchases and operating expenses, except in certain instances where agreements have been executed to limit certain joint owners' maximum exposure to the additional costs (See Note 21B). Each of the Utilities' share of operating costs of the above jointly owned generating facilities is included within the corresponding line in the Statements of Income. The co-owner of Intercession City Unit P11 has exclusive rights to the output of the unit during the months of June through September. PEF has that right for the remainder of the year. PEC's and PEF's ownership interests in the jointly owned generating facilities are listed below with related information at December 31:

2008 (in millions)		Company Ownership	Plant Investment	Accumulated Depreciation	Construction Work in Progress
Subsidiary	Facility	Interest			
PEC	Mayo	83.83%	\$519	\$278	\$228
PEC	Harris	83.83%	3,187	1,603	21
PEC	Brunswick	81.67%	1,667	970	42
PEC	Roxboro Unit 4	87.06%	674	446	12
PEF	Crystal River Unit 3	91.78%	843	461	252
PEF	Intercession City Unit P11	66.67%	23	9	—

2007 (in millions)		Company Ownership	Plant Investment	Accumulated Depreciation	Construction Work in Progress
Subsidiary	Facility	Interest			
PEC	Mayo	83.83%	\$519	\$270	\$156
PEC	Harris	83.83%	3,175	1,581	21
PEC	Brunswick	81.67%	1,647	959	16
PEC	Roxboro Unit 4	87.06%	637	422	39
PEF	Crystal River Unit 3	91.78%	817	450	177
PEF	Intercession City Unit P11	66.67%	23	9	—

In the tables above, plant investment and accumulated depreciation are not reduced by the regulatory disallowances related to the Shearon Harris Nuclear Plant (Harris), which are not applicable to the joint owner's ownership interest in Harris.

D. ASSET RETIREMENT OBLIGATIONS

At December 31, 2008 and 2007, the asset retirement costs, included in utility plant, related to nuclear decommissioning of irradiated plant, net of accumulated depreciation for PEC, totaled \$28 million and \$29 million, respectively. At December 31, 2008, the asset retirement costs, included in utility plant, related to nuclear decommissioning of irradiated plant totaled \$19 million at PEF. No costs related to nuclear decommissioning of irradiated plant were recorded at December 31, 2007, at PEF. At December 31, 2008 and 2007, additional PEF-related asset retirement costs, net of accumulated depreciation, of \$116 million and \$121 million, respectively, were recorded at Progress Energy as purchase accounting adjustments when we purchased Florida Progress Corporation (Florida Progress) in 2000. The fair value of funds set aside in the Utilities' nuclear decommissioning trust funds for the nuclear decommissioning liability totaled \$672 million and \$804 million at December 31, 2008 and 2007, respectively, for PEC and \$417 million and \$580 million, respectively, for PEF. Net nuclear decommissioning trust unrealized gains are included in regulatory liabilities (See Note 7A).

PEC's nuclear decommissioning cost provisions, which are included in depreciation and amortization expense, were \$31 million each in 2008, 2007 and 2006. Management believes that nuclear decommissioning costs that have been

and will be recovered through rates by PEC and PEF will be sufficient to provide for the costs of decommissioning. Expenses recognized for the disposal or removal of utility assets that are not SFAS No. 143 AROs, which are included in depreciation, amortization and accretion expense, were \$100 million, \$96 million and \$96 million in 2008, 2007 and 2006, respectively, for PEC and \$33 million, \$30 million and \$27 million in 2008, 2007 and 2006, respectively, for PEF.

During 2005, PEF performed a depreciation study as required by the FPSC no less than every four years. Implementation of the depreciation study decreased the rates used to calculate cost of removal expense with a resulting decrease of approximately \$55 million in 2006. In 2009, PEF will be required to file an updated depreciation study.

The Utilities recognize removal, nonirradiated decommissioning and dismantlement of fossil generation plant costs in regulatory liabilities on the Consolidated Balance Sheets (See Note 7A). At December 31, such costs consisted of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2008	2007	2008	2007	2008	2007
Removal costs	\$1,478	\$1,410	\$864	\$794	\$614	\$616
Nonirradiated decommissioning costs	146	141	84	80	62	61
Dismantlement costs	124	125	—	—	124	125
Non-ARO cost of removal	\$1,748	\$1,676	\$948	\$874	\$800	\$802

The NCUC requires that PEC update its cost estimate for nuclear decommissioning every five years. PEC's most recent site-specific estimates of decommissioning costs were developed in 2004, using 2004 cost factors, and are based on prompt dismantlement decommissioning, which reflects the cost of removal of all radioactive and other structures currently at the site, with such removal occurring after operating license expiration. These decommissioning cost estimates also include interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). These estimates, in 2004 dollars, were \$569 million for Unit No. 2 at Robinson Nuclear Plant (Robinson), \$418 million for Brunswick Nuclear Plant (Brunswick) Unit No. 1, \$444 million for Brunswick Unit No. 2 and \$775 million for Harris. The estimates are subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimates exclude the portion attributable to North Carolina Eastern Municipal Power Agency (Power Agency), which holds an undivided ownership interest in Brunswick and Harris. NRC operating licenses held by PEC currently expire in July 2030, December 2034, September 2036 and October 2046 for Robinson, Brunswick Units No. 2 and No. 1 and Harris, respectively. On December 17, 2008, Harris received a 20-year extension from the NRC on its operating license, which extends the operating license through 2046. Based on updated assumptions, in 2005 PEC further reduced its asset retirement cost net of accumulated depreciation and its ARO liability by approximately \$14 million and \$49 million, respectively. In 2009, PEC will be required to file an updated nuclear decommissioning study.

The FPSC requires that PEF update its cost estimate for nuclear decommissioning every five years. PEF received a new site-specific estimate of decommissioning costs for the Crystal River Unit No. 3 (CR3) in October 2008, which PEF will file with the FPSC in 2009 as part of PEF's planned base rate filing (See Note 7C). PEF's estimate is based on prompt dismantlement decommissioning and includes interim spent fuel storage costs associated with maintaining spent nuclear fuel on site until such time that it can be transferred to a DOE facility (See Note 22D). The estimate, in 2008 dollars, is \$751 million and is subject to change based on a variety of factors including, but not limited to, cost escalation, changes in technology applicable to nuclear decommissioning and changes in federal, state or local regulations. The cost estimate excludes the portion attributable to other co-owners of CR3. The NRC operating license held by PEF for CR3 currently expires in December 2016. PEF submitted an application requesting a 20-year extension of this license on December 18, 2008. PEF expects a decision from the NRC in 2011. As part of this new estimate and assumed license extension, PEF increased its asset retirement cost and its ARO liability by approximately \$19 million. Retail accruals on PEF's reserves for nuclear decommissioning were previously suspended through December 2005 under the terms of a previous base rate agreement, and the base rate agreement resulting from a base rate proceeding in 2005 continues that suspension. PEF expects to continue this

suspension based on its planned 2009 base rate filing. In addition, the wholesale accrual on PEF's reserves for nuclear decommissioning was suspended retroactive to January 2006, following a FERC accounting order issued in November 2006.

The FPSC requires that PEF update its cost estimate for fossil plant dismantlement every four years. PEF received an updated fossil dismantlement study estimate in 2008, which PEF will file with the FPSC in 2009 as part of PEF's planned base rate filing. PEF's reserve for fossil plant dismantlement was approximately \$145 million and \$144 million at December 31, 2008 and 2007, including amounts in the ARO liability for asbestos abatement, discussed below. Retail accruals on PEF's reserves for fossil plant dismantlement were previously suspended through December 2005 under the terms of PEF's previous base rate agreement. The base rate agreement resulting from a base rate proceeding in 2005 continued the suspension of PEF's collection from customers of the expenses to dismantle fossil plants.

PEC and PEF have recognized ARO liabilities related to asbestos abatement costs (See Note 1D). In 2008, PEC and PEF reduced the ARO liabilities related to asbestos abatement costs for the fossil plants by \$4 million and \$8 million, respectively, due to an updated study. An additional ARO liability was recognized in 2008 for landfill capping costs identified by both PEC and PEF of \$1 million and \$6 million, respectively.

We have identified but not recognized AROs related to electric transmission and distribution and telecommunications assets as the result of easements over property not owned by us. These easements are generally perpetual and require retirement action only upon abandonment or cessation of use of the property for the specified purpose. The ARO is not estimable for such easements, as we intend to utilize these properties indefinitely. In the event we decide to abandon or cease the use of a particular easement, an ARO would be recorded at that time.

The following table presents the changes to the AROs during the years ended December 31, 2008 and 2007. Revisions to prior estimates of the PEC and PEF regulated ARO are related to the updated cost estimates for nuclear decommissioning and asbestos described above.

(in millions)	Progress Energy		PEC	PEF
	Regulated	Nonregulated		
Asset retirement obligations at January 1, 2007	\$1,303	\$1	\$1,004	\$299
Accretion expense	75	—	59	16
Remediation	—	(1)	—	—
Asset retirement obligations at December 31, 2007	1,378	—	1,063	315
Additions	7	—	1	6
Accretion expense	79	—	62	17
Revisions to prior estimates	7	—	(4)	11
Asset retirement obligations at December 31, 2008	\$1,471	\$—	\$1,122	\$349

E. INSURANCE

The Utilities are members of Nuclear Electric Insurance Limited (NEIL), which provides primary and excess insurance coverage against property damage to members' nuclear generating facilities. Under the primary program, each company is insured for \$500 million at each of its respective nuclear plants. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance with limits of \$1.750 billion on each nuclear plant.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. Both PEC and PEF are insured under this program, following a 12-week deductible period, for 52 weeks in the amount of \$3.5 million per week at Brunswick, Harris and Robinson, and \$4.5 million per week at CR3. An additional 110 weeks of coverage is provided at 80 percent of the above weekly amounts. For the current policy period, the companies are subject to retrospective premium assessments of up to approximately \$37 million with respect to the primary coverage, \$38 million with respect to the decontamination, decommissioning and excess property coverage, and \$25 million for the incremental

replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontaminate the plant, before any proceeds can be used for decommissioning, plant repair or restoration. Each company is responsible to the extent losses may exceed limits of the coverage described above.

Both of the Utilities are insured against public liability for a nuclear incident up to \$12.520 billion per occurrence. Under the current provisions of the Price Anderson Act, which limits liability for accidents at nuclear power plants, each company, as an owner of nuclear units, can be assessed for a portion of any third-party liability claims arising from an accident at any commercial nuclear power plant in the United States. In the event that public liability claims from each insured nuclear incident exceed the primary level of coverage provided by American Nuclear Insurers, each company would be subject to pro rata assessments of up to \$117.5 million for each reactor owned for each incident. Payment of such assessments would be made over time as necessary to limit the payment in any one year to no more than \$17.5 million per reactor owned per incident. Both the maximum assessment per reactor and the maximum yearly assessment are adjusted for inflation at least every five years. The next scheduled adjustment is due on or before August 29, 2013.

Under the NEIL policies, if there were multiple terrorism losses occurring within one year, NEIL would make available one industry aggregate limit of \$3.240 billion for noncertified acts, along with any amounts it recovers from reinsurance, government indemnity or other sources up to the limits for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply.

The Utilities self-insure their transmission and distribution lines against loss due to storm damage and other natural disasters. PEF maintains a storm damage reserve pursuant to a regulatory order and may defer losses in excess of the reserve (See Note 7C).

5. RECEIVABLES

Income taxes receivable and interest income receivables are not included in receivables. These amounts are included in prepayments and other current assets or shown separately on the Consolidated Balance Sheets. At December 31 receivables were comprised of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2008	2007	2008	2007	2008	2007
Trade accounts receivable	\$648	\$616	\$350	\$310	\$298	\$276
Unbilled accounts receivable	182	175	120	111	62	59
Notes receivable	2	67	—	—	—	—
Derivatives accounts receivable	—	247	—	—	—	13
Other receivables	53	46	38	31	13	13
Allowance for doubtful receivables	(18)	(29)	(6)	(6)	(11)	(10)
Total receivables, net	\$867	\$1,122	\$502	\$446	\$362	\$351

6. INVENTORY

At December 31 inventory was comprised of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2008	2007	2008	2007	2008	2007
Fuel for production	\$614	\$455	\$287	\$210	\$327	\$245
Materials and supplies	588	520	338	284	250	236
Emission allowances	37	19	8	16	29	3
Total inventory	\$1,239	\$994	\$633	\$510	\$606	\$484

Materials and supplies amounts above exclude long-term combustion turbine inventory amounts included in other assets and deferred debits on the Consolidated Balance Sheets for Progress Energy of \$23 million and \$65 million at December 31, 2008 and 2007, respectively, and PEC of \$44 million at December 31, 2007.

Emission allowances above exclude long-term emission allowances included in other assets and deferred debits on the Consolidated Balance Sheets for Progress Energy, PEC and PEF of \$61 million, \$14 million and \$47 million, respectively, at December 31, 2008. Long-term emission allowances for Progress Energy, PEC and PEF were \$32 million, \$3 million and \$29 million, respectively, at December 31, 2007.

On November 12, 2008, the FPSC approved PEF's petition for recovery of its CAIR expenses, including nitrogen oxides (NOx) emission allowance inventory, through the environmental cost recovery clause (ECRC) (See Note 7C).

7. REGULATORY MATTERS

A. REGULATORY ASSETS AND LIABILITIES

As regulated entities, the Utilities are subject to the provisions of SFAS No. 71. Accordingly, the Utilities record certain assets and liabilities resulting from the effects of the ratemaking process that would not be recorded under GAAP for nonregulated entities. The Utilities' ability to continue to meet the criteria for application of SFAS No. 71 could be affected in the future by competitive forces and restructuring in the electric utility industry. In the event that SFAS No. 71 no longer applies to a separable portion of our operations, related regulatory assets and liabilities would be eliminated unless an appropriate regulatory recovery mechanism was provided. Additionally, such an event could result in an impairment of utility plant assets as determined pursuant to SFAS No. 144.

Except for portions of deferred fuel costs and loss on reacquired debt, all regulatory assets earn a return or the cash has not yet been expended, in which case the assets are offset by liabilities that do not incur a carrying cost. We anticipate recovering long-term deferred fuel costs beginning in 2010 and loss on reacquired debt over the applicable lives of the debt. We expect to fully recover our regulatory assets and refund our regulatory liabilities through customer rates under current regulatory practice.

At December 31 the balances of regulatory assets (liabilities) were as follows:

<i>Progress Energy</i>		
(in millions)	2008	2007
Deferred fuel cost – current (Notes 7B and 7C)	\$335	\$154
Nuclear deferral (Note 7C)	190	–
Environmental	8	–
Total current regulatory assets	533	154
Deferred fuel cost – long-term (Note 7B)	130	114
Deferred impact of ARO (Note 1D)	348	294
Income taxes recoverable through future rates (Note 14)	193	141
Loss on reacquired debt (Note 1D)	37	43
Storm deferral (Note 7C)	16	22
Postretirement benefits (Note 16)	1,042	212
Derivative mark-to-market adjustment (Note 17A)	697	18
Environmental (Notes 7C and 21A)	31	40
Investment in GridSouth (Note 7D)	19	22
Other	54	40
Total long-term regulatory assets	2,567	946
Deferred fuel cost – current (Note 7C)	–	(154)
Deferred energy conservation cost and other current regulatory liabilities	(6)	(19)
Total current regulatory liabilities	(6)	(173)
Non-ARO cost of removal (Note 4D)	(1,748)	(1,676)
Deferred impact of ARO (Note 1D)	(198)	(226)
Net nuclear decommissioning trust unrealized gains (Note 4D)	(28)	(351)
Derivative mark-to-market adjustment (Note 17A)	(26)	(200)
Storm reserve (Note 7C)	(129)	(63)
Other	(52)	(38)
Total long-term regulatory liabilities	(2,181)	(2,554)
Net regulatory assets (liabilities)	\$913	\$(1,627)
<i>PEC</i>		
(in millions)	2008	2007
Deferred fuel cost – current (Note 7B)	\$207	\$148
Deferred fuel cost – long-term (Note 7B)	130	114
Deferred impact of ARO (Note 1D)	343	294
Income taxes recoverable through future rates (Note 14)	62	51
Loss on reacquired debt (Note 1D)	16	18
Postretirement benefits (Note 16)	522	126
Derivative mark-to-market adjustment (Note 17A)	96	4
Investment in GridSouth (Note 7D)	19	22
Other	55	51
Total long-term regulatory assets	1,243	680
Non-ARO cost of removal (Note 4D)	(948)	(874)
Net nuclear decommissioning trust unrealized gains (Note 4D)	(21)	(188)
Derivative mark-to-market adjustment (Note 17A)	–	(20)
Other	(18)	(16)
Total long-term regulatory liabilities	(987)	(1,098)
Net regulatory assets (liabilities)	\$463	\$(270)

PEF

(in millions)	2008	2007
Deferred fuel cost – current (Note 7C)	\$128	\$6
Nuclear deferral (Note 7C)	190	–
Environmental	8	–
Total current regulatory assets	326	6
Income taxes recoverable through future rates (Note 14)	131	90
Loss on reacquired debt (Note 1D)	21	25
Storm deferral (Note 7C)	14	16
Postretirement benefits (Note 16)	520	86
Derivative mark-to-market adjustment (Note 17A)	601	14
Environmental (Notes 7C and 21A)	21	30
Other	16	5
Total long-term regulatory assets	1,324	266
Deferred fuel cost – current (Note 7C)	–	(154)
Deferred energy conservation cost and other current regulatory liabilities	(6)	(19)
Total current regulatory liabilities	(6)	(173)
Non-ARO cost of removal (Note 4D)	(800)	(802)
Deferred impact of ARO (Note 1D)	(76)	(96)
Net nuclear decommissioning trust unrealized gains (Note 4D)	(7)	(163)
Derivative mark-to-market adjustment (Note 17A)	(26)	(180)
Storm reserve (Note 7C)	(129)	(63)
Other	(38)	(26)
Total long-term regulatory liabilities	(1,076)	(1,330)
Net regulatory assets (liabilities)	\$568	\$(1,231)

B. PEC RETAIL RATE MATTERS*BASE RATES*

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and SCPSC. In PEC's most recent rate cases in 1988, the NCUC and the SCPSC each authorized a return on equity of 12.75 percent. In June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NOx and sulfur dioxide (SO₂) from their North Carolina coal-fired power plants in phases by 2013. The Clean Smokestacks Act froze North Carolina electric utility base rates for a five-year period, which ended December 31, 2007, unless there were extraordinary events beyond the control of the utilities or unless the utilities persistently earned a return substantially in excess of the rate of return established and found reasonable by the NCUC in the respective utility's last general rate case. There were no adjustments to PEC's base rates during the five-year period ended December 31, 2007. Subsequent to 2007, PEC's current North Carolina base rates are continuing subject to traditional cost-based rate regulation. During the rate freeze period, the legislation provided for a minimum amortization and recovery of 70 percent of the original estimated compliance costs of \$813 million (or \$569 million) while providing flexibility in the amount of annual amortization recorded from none up to \$174 million per year.

On March 23, 2007, PEC filed a petition with the NCUC requesting that it be allowed to amortize the remaining 30 percent (or \$244 million) of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, with discretion to amortize up to \$174 million in either year. Additionally, among other things, PEC requested in its March 23, 2007 petition that the NCUC allow PEC to include in its rate base those eligible compliance costs exceeding the original estimated compliance costs and that PEC be allowed to accrue AFUDC on all eligible compliance costs in excess of the original estimated compliance costs. PEC also requested that any prudence review of PEC's environmental compliance costs be deferred until PEC's next ratemaking proceeding in which PEC seeks to adjust its base rates. On October 22, 2007, PEC filed with the NCUC a settlement agreement with the NCUC Public Staff, the Carolina Utility Customers Association (CUCA) and the Carolina Industrial Group for Fair Utility Rates II (CIGFUR) supporting PEC's proposal. On December 20, 2007, the NCUC approved the settlement agreement on a provisional basis, with the NCUC indicating that it intended to initiate a review in 2009 to consider

all reasonable alternatives and proposals related to PEC's recovery of its Clean Smokestacks Act compliance costs in excess of the original estimated compliance costs of \$813 million.

On July 10, 2008, PEC filed a petition with the NCUC requesting that the NCUC reconsider its order issued December 20, 2007, and terminate the requirement that PEC amortize any Clean Smokestacks Act compliance costs in excess of \$569 million, and instead allow PEC to place into rate base all capital costs associated with its compliance with the Clean Smokestacks Act in excess of \$569 million.

On September 5, 2008, the NCUC approved PEC's request to terminate any further accelerated amortization of its Clean Smokestacks Act compliance costs. The NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million as the projects are closed to plant in service. As a result of this order, PEC will not amortize \$229 million of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, but will record depreciation over the useful life of the assets.

For the years ended December 31, 2008, 2007 and 2006, PEC recognized amortization of \$15 million, \$34 million and \$140 million, respectively, and recognized \$584 million in cumulative amortization through December 31, 2008.

See Note 21B for additional information about the Clean Smokestacks Act.

FUEL COST RECOVERY

On April 30, 2008, PEC filed with the SCPSC for an increase in the fuel rate charged to its South Carolina ratepayers. PEC asked the SCPSC to approve a \$39 million increase in fuel rates for under-recovered fuel costs associated with prior year settlements and to meet future expected fuel costs. On June 26, 2008, the SCPSC approved PEC's request. Effective July 1, 2008, residential electric bills increased by \$5.86 per 1,000 kilowatt-hours (kWh), or 6.1 percent, for fuel cost recovery. At December 31, 2008, PEC's South Carolina under-recovered deferred fuel balance was \$15 million.

On June 6, 2008, PEC filed with the NCUC for an increase in the fuel rate charged to its North Carolina ratepayers. Subsequently, PEC jointly filed a settlement agreement with CIGFUR, CUCA and the NCUC Public Staff. Under the terms of the settlement agreement, PEC will collect \$203 million of deferred fuel costs ratably over a three-year period beginning December 1, 2008, compared with a one-year recovery period proposed in PEC's original request. Amounts to be collected in years beginning December 1, 2009 and 2010, will accrue interest. On November 14, 2008, the NCUC approved the settlement agreement. Effective December 1, 2008, residential electric bills increased by \$8.79 per 1,000 kWh, or 9.1 percent. At December 31, 2008, PEC's North Carolina deferred fuel balance was \$321 million, of which \$130 million is expected to be collected after 2009 and has been classified as a long-term regulatory asset.

DEMAND-SIDE MANAGEMENT AND ENERGY-EFFICIENCY COST RECOVERY

During 2007, the North Carolina legislature passed comprehensive energy legislation, which became law on August 20, 2007. Among other provisions, the law allows the utility to recover the costs of demand-side management (DSM) and energy-efficiency programs through an annual DSM clause. The law allows PEC to capitalize those costs intended to produce future benefits and authorizes the NCUC to approve other forms of financial incentives to the utility for DSM and energy-efficiency programs. DSM programs include, but are not limited to, any program or initiative that shifts the timing of electricity use from peak to nonpeak periods and includes load management, electricity system and operating controls, direct load control, interruptible load and electric system equipment and operating controls. PEC has begun implementing a series of DSM and energy-efficiency programs and, as of December 31, 2008, has deferred \$8 million of implementation and program costs for future recovery. In 2008, PEC filed for NCUC approval of multiple DSM and energy-efficiency programs. The majority of the programs has been approved by the NCUC or is pending further review. We cannot predict the outcome of the DSM and energy-efficiency filings pending further approval by the NCUC or whether the programs will produce the expected operational and economic results.

On June 6, 2008, and as subsequently amended, PEC filed an application with the NCUC for approval of a DSM and energy-efficiency clause to recover the costs of these programs and a return on the costs. Although the NCUC is not expected to make a decision on this filing until first quarter 2009, on November 14, 2008, the NCUC approved PEC collecting the DSM and energy-efficiency related costs beginning December 1, 2008. On December 9, 2008, the North Carolina Public Staff filed an Agreement and Stipulation of Partial Settlement with PEC and some of the other parties to the proceedings. The NCUC held a hearing on the matter on January 7, 2009. If the rates being collected as of December 1, 2008, are approved, residential electric bills would increase by \$0.74 per 1,000 kWh, or 0.8 percent. The increase in rates is subject to true-up in future proceedings. We cannot predict the outcome of this matter.

PEC filed a petition on November 30, 2007, with the SCPSC seeking authorization to create a deferred account for DSM and energy-efficiency expenses. On December 21, 2007, the SCPSC issued an order granting PEC's petition. As a result, PEC has deferred \$1 million of implementation and program costs for future recovery in the South Carolina jurisdiction. On June 27, 2008, PEC filed an application with the SCPSC to establish procedures that encourage investment in cost-effective energy-efficient technologies and energy conservation programs and approve the establishment of an annual rider to allow recovery for all costs associated with such programs, as well as the recovery of appropriate incentives for investing in such programs. On January 23, 2009, PEC filed a Stipulation Agreement between PEC and some of the other parties to the proceeding. A hearing on this matter was held on February 12, 2009. We cannot predict the outcome of this matter.

RENEWABLE ENERGY AND ENERGY EFFICIENCY PORTFOLIO STANDARD COST RECOVERY

On February 29, 2008, the NCUC issued an order adopting final rules for implementing North Carolina's comprehensive energy legislation. These rules provide filing requirements associated with the legislation. The order required PEC to submit its first annual Renewable Energy and Energy Efficiency Portfolio Standard (NC REPS) compliance plan as part of its integrated resource plan, which was filed on September 2, 2008. Under the new rules, beginning in 2009, PEC will also be required to file an annual NC REPS compliance report demonstrating the actions it has taken to comply with the NC REPS requirement. The rules measure compliance with the NC REPS requirement via renewable energy certificates (REC) earned after January 1, 2008. The NCUC will pursue a third-party REC tracking system, but will not develop or require participation in a REC trading platform at this time. Rates for the NC REPS clause will be set based on projected costs with true-up provisions. On June 6, 2008, and as amended on August 22, 2008, PEC filed an application with the NCUC for approval of a NC REPS clause to recover the costs of this program. On November 14, 2008, the NCUC approved a monthly charge per customer rather than a usage-based rate. Effective December 1, 2008, residential electric bills increased \$0.36 per month.

OTHER MATTERS

The NCUC and the SCPSC approved proposals to accelerate cost recovery of PEC's nuclear generating assets beginning January 1, 2000, and continuing through 2009. The North Carolina aggregate minimum and maximum amounts of cost recovery are \$415 million and \$585 million, respectively, with flexibility in the amount of annual depreciation recorded, from none to \$150 million per year. Accelerated cost recovery of these assets resulted in additional depreciation expense of \$52 million and \$37 million for the years ended December 31, 2008 and 2007, respectively. No additional depreciation expense from accelerated cost recovery was recorded in 2006. Through December 31, 2008, PEC recorded cumulative accelerated depreciation of \$415 million for the North Carolina jurisdiction. The South Carolina aggregate minimum and maximum amounts of cost recovery are \$115 million and \$165 million, respectively. No additional depreciation expense from accelerated cost recovery was recorded in 2008, 2007 or 2006. Through December 31, 2008, PEC recorded cumulative accelerated depreciation of \$77 million for the South Carolina jurisdiction.

In October 2008, PEC filed, and the SCPSC approved, a petition to terminate PEC's remaining obligation to accelerate the cost recovery of PEC's nuclear generating assets. As a result of the approval of this petition, PEC will not be required to recognize the remaining \$38 million of accelerated depreciation required to reach the minimum amount of cost recovery for the South Carolina jurisdiction, but will record depreciation over the useful life of the assets.

On October 13, 2008, the NCUC issued a Certificate of Public Convenience and Necessity allowing PEC to proceed with plans to construct an approximate 600-MW combined cycle dual fuel capable generating facility at its Richmond County generation site to provide additional generating and transmission capacity to meet the growing energy demands of southern and eastern North Carolina. PEC expects that the new generating and transmission capacity will be online by the second quarter of 2011.

On April 30, 2008, PEC submitted a revised Open Access Transmission Tariff (OATT) filing, including a settlement agreement, with the FERC requesting an increase in transmission rates. The purpose of the filing was to implement formula rates for the PEC OATT in order to more accurately reflect the costs that PEC incurs in providing transmission service. In the filing, PEC proposed to move from a fixed revenue requirement to a formula rate, which allows for transmission rates to be updated each year based on the prior year's actual costs. Settlement discussions were held with major customers prior to the filing and a settlement agreement was reached on all issues. The settlement proposed a formula rate with a rate of return on equity of 10.8 percent as well as recovery of the wholesale portion of the terminated GridSouth Transco, LLC (GridSouth) project startup costs over five years. On June 27, 2008, the FERC approved the settlement. The new rates were effective July 1, 2008, and increased 2008 revenues by \$7 million.

C. PEF RETAIL RATE MATTERS

BASE RATE AGREEMENT

As a result of a base rate proceeding in 2005, PEF is party to a base rate settlement agreement that was effective with the first billing cycle of January 2006 and will remain in effect through the last billing cycle of December 2009, with PEF having sole option to extend the agreement through the last billing cycle of June 2010 pursuant to the agreement. In accordance with the base rate agreement and as modified by a stipulation and settlement agreement approved by the FPSC on October 23, 2007, base rates were adjusted in January 2008 due to specified generation facilities placed in service in 2007. The settlement agreement also provides for revenue sharing between PEF and its ratepayers beginning in 2006, whereby PEF will refund two-thirds of retail base revenues between the specified threshold and specified cap and 100 percent of revenues above the specified cap. However, PEF's retail base revenues did not exceed the specified thresholds in 2008, 2007 or 2006 and thus no revenues were subject to revenue sharing. Both the base threshold and the cap will be adjusted annually for rolling average 10-year retail kWh sales growth and were \$1.664 billion and \$1.716 billion, respectively, for 2008. The settlement agreement provides for PEF to continue to recover certain costs through clauses, such as the recovery of post-9/11 security costs through the capacity clause and the carrying costs of coal inventory in transit and coal procurement costs through the fuel clause. Under the settlement agreement, PEF is authorized to include an adjustment to increase common equity for the impact of Standard & Poor's Rating Services' (S&P's) imputed off-balance sheet debt for future capacity payments to qualifying facilities (QFs) and other entities under long-term purchase power agreements. This adjusted capital structure will be used for surveillance reporting with the FPSC and cost-recovery clause return calculations. PEF will use an authorized 11.75 percent return on equity for cost-recovery clauses and AFUDC. In addition, PEF's adjusted equity ratio will be capped at 57.83 percent as calculated on a financial capital structure that includes the adjustment for the S&P imputed off-balance sheet debt. If PEF's regulatory return on equity falls below 10 percent, and for certain other events, PEF is authorized to petition the FPSC for a base rate increase.

On February 12, 2009, in anticipation of the expiration of its current base rate settlement agreement, PEF notified the FPSC that it intends to request an increase in its base rates, effective January 1, 2010. In its notice, PEF requested the FPSC to approve calendar year 2010 as the projected test period for setting new base rates and that it intends to seek annual rate relief between \$475 million to \$550 million. PEF intends to file its case-in-chief on March 20, 2009. The request for increased base rates is based, in part, on investments PEF is making in its generating fleet and in its transmission and distribution systems. If approved by the FPSC, the new base rates would increase residential bills by approximately \$15.00 per 1,000 kWh, or 11 percent, effective January 1, 2010. We cannot predict the outcome of this matter.

As part of its February 12, 2009 notification, PEF also informed the FPSC that it may seek additional rate relief in 2009, primarily driven by the addition of its repowered Bartow power plant, which is expected to begin commercial

operation in June 2009, and decreased sales and higher pension costs impacted by the current financial and credit crises. We cannot predict the outcome of this matter.

FUEL COST RECOVERY

On September 4, 2007, PEF filed a request with the FPSC seeking approval of a cost adjustment to reflect a projected over-collection of fuel costs in 2007, declining projected fuel costs for 2008 and other recovery clause factors. On January 8, 2008, the FPSC issued an order approving PEF's request for a \$163 million, or 4.53 percent, decrease in rates effective January 1, 2008.

On May 30, 2008, PEF filed a petition with the FPSC requesting a mid-course correction to its fuel cost-recovery factors to recover an additional \$213 million in 2008, primarily due to rising fuel costs. In accordance with a FPSC order, investor-owned utilities must file a notice with the FPSC if the year-end projected over- or under-recovery of fuel costs is expected to be greater than 10 percent of projected fuel revenues. The requested mid-course correction would have resulted in a residential fuel rate increase of \$12.07 per 1,000 kWh for the period August through December 2008. On July 1, 2008, the FPSC approved recovery of the \$213 million projected year-end under-recovery, but allowed PEF to recover 50 percent in 2008 and 50 percent in 2009. Therefore, the increase in the fuel rate for the period August through December 2008 was \$6.03 per 1,000 kWh. This increase was partially offset by the expiration of PEF's storm cost-recovery surcharge of \$3.61 per 1,000 kWh effective August 2008. Consequently, beginning with the first billing cycle in August and including gross receipts tax, residential electric bills increased by \$2.48 per 1,000 kWh, or 2.29 percent. As discussed in "Base Rate Agreement," residential base rates increased effective January 1, 2008, due to specified generation facilities placed in service in 2007. The costs of certain of these facilities had previously been recovered through the fuel clause.

On October 15, 2008, PEF filed a request with the FPSC to seek approval of a cost adjustment for the under-recovery of fuel costs in 2008 and other recovery-clause factors. PEF asked the FPSC to approve an increase in residential electric bills by \$27.28 per 1,000 kWh, or 24.7 percent, effective January 1, 2009. The increase in residential bills is primarily due to increases of \$14.09 per 1,000 kWh for the projected recovery of fuel costs, \$9.74 per 1,000 kWh for the projected recovery through the capacity cost-recovery clause and \$2.50 per 1,000 kWh for the projected recovery through the ECRC. The increase in the capacity cost-recovery clause is primarily the result of projected costs to be incurred in 2009 under the nuclear cost-recovery rule discussed below for the proposed Levy Units 1 and 2 and the CR3 uprate less the projected reduction in capacity costs. The increase in the ECRC is primarily due to the recovery of emission allowance costs (See Note 21B) and the return on assets expected to be placed in service in 2009. The FPSC issued orders in November and December 2008 to approve the cost adjustment. At December 31, 2008, PEF's under-recovered deferred fuel balance was \$128 million.

On February 18, 2009, PEF filed a request with the FPSC to reduce its 2009 fuel cost-recovery factors by an amount sufficient to achieve a \$207 million reduction in fuel charges to retail customers as a result of effective fuel purchasing strategies and lower fuel prices, and to defer until 2010 the recovery of \$200 million of Levy nuclear preconstruction costs, which the FPSC had authorized to be collected in 2009. If approved, the request would reduce residential customers' fuel charges by \$6.90 per 1,000 kWh, and would reduce the nuclear cost-recovery charge by \$7.80 per 1,000 kWh, starting with the first April billing cycle. Commercial and industrial customers would see similar reductions. We cannot predict the outcome of this matter.

On August 10, 2006, Florida's Office of Public Counsel (OPC) filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers \$143 million, plus interest, of alleged excessive past fuel recovery charges and SO₂ allowance costs during the period 1996 to 2005. The OPC subsequently revised its claim to \$135 million, plus interest. The OPC claimed that although Crystal River Unit 4 and Crystal River Unit 5 (CR4 and CR5) were designed to burn a blend of coals, PEF failed to act to lower ratepayers' costs by purchasing the most economical blends of coal. During the period specified in the petition, PEF's costs recovered through fuel recovery clauses were annually reviewed for prudence and approval by the FPSC. On October 10, 2007, the FPSC issued its order rejecting most of the OPC's contentions. However, the FPSC found that PEF had not been prudent in purchasing a portion of its coal requirements during the period from 2003 to 2005. Accordingly, the FPSC ordered PEF to refund its ratepayers approximately \$14 million, inclusive of interest, over a 12-month period beginning January 1, 2008. For the year ended December 31, 2007, PEF recorded a pre-tax other operating expense of \$12 million, interest expense

of \$2 million and an associated \$14 million regulatory liability included within PEF's deferred fuel cost at December 31, 2007. The refund was returned to ratepayers through a reduction of prior year under-recovered fuel costs. The FPSC also ordered PEF to address whether it was prudent in its 2006 and 2007 coal purchases for CR4 and CR5. On October 4, 2007, PEF filed a motion to establish a separate docket on the prudence of its coal purchases for CR4 and CR5 for the years 2006 and 2007. On October 17, 2007, the FPSC granted that motion. PEF believes its coal procurement practices have been prudent. A hearing on PEF's 2006 and 2007 coal purchases has been scheduled for April 13-15, 2009. On February 2, 2009, the OPC filed direct testimony in this hearing alleging that during 2006 and 2007, PEF collected excessive fuel costs and SO₂ allowance costs of \$61 million before interest. The OPC claimed that these excessive costs were attributed to PEF's ongoing practice of not blending the most economical sources of coal at its CR4 and CR5 plants. We cannot predict the outcome of this matter.

NUCLEAR COST RECOVERY

The FPSC has authorized alternative cost-recovery mechanisms for preconstruction and construction carrying cost of nuclear power plants. Accordingly, at December 31, 2008, PEF reflected \$190 million of nuclear-related costs as a current regulatory asset, of which \$174 million represents construction work in progress (See Note 4A). The total \$190 million of nuclear-related costs was comprised of \$9 million related to the CR3 uprate and \$181 million related to Levy.

CR3 Uprate

On September 22, 2006, PEF filed a petition with the FPSC for Determination of Need to uprate CR3 and bid rule exemption, and for recovery of the revenue requirements of the uprate through PEF's fuel recovery clause. To the extent the expenditures are prudently incurred, PEF's investment in the CR3 uprate is eligible for recovery through base rates. PEF's petition would allow for more prompt recovery. The petition filed with the FPSC included a preliminary project estimate of approximately \$382 million. The multi-stage uprate will increase CR3's gross output by approximately 180 MW by 2012. On February 8, 2007, the FPSC issued an order approving the need certification petition and bid rule exemption. PEF received NRC approval for a license amendment and implemented the first stage's design modification on January 31, 2008, at a cost of \$9 million. PEF will apply for the required license amendment for the third stage's design modification. After PEF's completion of a transmission study and additional engineering studies, the current project estimate of fully loaded costs is \$364 million.

On February 29, 2008, PEF filed a petition amending its recovery request and asked for recovery of costs incurred in 2007 and 2006 through the capacity cost-recovery clause under Florida's comprehensive energy legislation and the FPSC's nuclear cost-recovery rule. On August 19, 2008, the FPSC granted PEF's petition to amend its request to recover costs for the nuclear uprate project under the nuclear cost-recovery rule. On May 1, 2008, PEF filed with the FPSC for an increase in the capacity cost-recovery clause for estimated costs incurred in 2008 and projected costs to be incurred in 2009 under the FPSC nuclear cost-recovery rule. PEF petitioned the FPSC to approve a \$25 million increase in the capacity cost-recovery revenue requirement for costs associated with subsequent stages of the CR3 uprate.

On September 19, 2008, PEF filed a petition with the FPSC to approve a base rate increase for the remaining revenue requirements for the first-stage costs. PEF's 2008 revenue requirements for recovery of the first stage's costs were included in the capacity cost-recovery clause. On October 28, 2008, the FPSC approved a \$1 million base rate increase for costs associated with the first stage of the CR3 uprate. Base rates increased for residential customers by \$0.04 per 1,000 kWh, or 0.1 percent, beginning in January 2009. On November 12, 2008, the FPSC issued an order to approve \$24 million for costs associated with the CR3 uprate in establishing PEF's 2009 capacity cost-recovery clause factor.

Levy Nuclear

On March 11, 2008, PEF filed a petition for an affirmative Determination of Need for its proposed Levy Units 1 and 2 nuclear power plants, together with the associated facilities, including transmission lines and substation facilities. Levy Units 1 and 2 are needed to maintain electric system reliability and integrity, fuel and generating diversity and to continue to provide adequate electricity to PEF's customers at a reasonable cost. Levy Units 1 and 2 will be advanced passive light water nuclear reactors, each with a generating capacity of approximately 1,100 MW. As

stated in the petition, Levy Unit 1 would be placed in service by June 2016 and Levy Unit 2 by June 2017. The filed, nonbinding project cost estimate for Levy Units 1 and 2 is approximately \$14 billion for generating facilities and approximately \$3 billion for associated transmission facilities. The FPSC issued the final order granting the petition for the Determination of Need for the proposed nuclear units on August 12, 2008.

On March 11, 2008, PEF also filed a petition with the FPSC to open a discovery docket regarding the actual and projected costs of Levy. PEF filed the petition to assist the FPSC in the timely and adequate review of the proposed project's costs recoverable under the nuclear cost-recovery rule. On May 1, 2008, PEF filed a petition for recovery of both preconstruction and carrying charges on construction costs incurred or anticipated to be incurred during 2008 and 2009 under the nuclear cost-recovery rule. Based on the affirmative vote by the FPSC on the Determination of Need for Levy, PEF filed a petition on July 18, 2008, to recover all prudently incurred costs under the nuclear cost-recovery rule. On November 12, 2008, the FPSC issued an order to approve the inclusion of preconstruction and carrying charges of \$357 million as well as site selection costs of \$38 million in establishing PEF's 2009 capacity cost-recovery clause factor.

As discussed above in "Fuel Cost Recovery," on February 18, 2009, PEF filed a request with the FPSC to defer the recovery of \$200 million of Levy nuclear preconstruction costs.

STORM COST RECOVERY

In 2005, the FPSC issued an order authorizing PEF to recover \$232 million over a two-year period, including interest, of the costs it incurred and previously deferred related to PEF's restoration of power associated with four hurricanes in 2004. The net impact was included in customer bills beginning January 1, 2006. In 2007 and 2006, PEF recorded amortization of \$75 million and \$122 million, respectively, associated with the recovery of these storm costs. The retail portion of storm restoration costs were fully recovered at December 31, 2007.

On April 25, 2006, PEF entered into a settlement agreement with certain intervenors in its storm cost-recovery docket that would allow PEF to extend its then-current two-year storm surcharge, which equals approximately \$3.61 on the average residential monthly customer bill of 1,000 kWh, for an additional 12-month period to replenish its storm reserve. The requested extension, which began August 2007, was expected to replenish the existing storm reserve by an estimated \$126 million. During the third quarter of 2006, PEF and the intervenors modified the settlement agreement such that in the event future storms deplete the reserve, PEF would be able to petition the FPSC for implementation of an interim surcharge of at least 80 percent and up to 100 percent of the claimed deficiency of its storm reserve. The intervenors agreed not to oppose the interim recovery of 80 percent of the future claimed deficiency but reserved the right to challenge the interim surcharge recovery of the remaining 20 percent. The FPSC has the right to review PEF's storm costs for prudence. On August 29, 2006, the FPSC approved the settlement agreement as modified. In 2008, PEF recorded net additional storm reserve of \$66 million from the extension of the storm surcharge. At December 31, 2008, PEF's storm reserve totaled \$129 million.

OTHER MATTERS

On October 29, 2007, PEF submitted a revised OATT filing, including a settlement agreement, with the FERC requesting an increase in transmission rates. The purpose of the filing was to implement formula rates for the PEF OATT in order to more accurately reflect the costs that PEF incurs in providing transmission service. In the filing, PEF proposed to move from a fixed rate to a formula rate, which allows for transmission rates to be updated each year based on the prior year's actual costs. Settlement discussions were held with major customers prior to the filing and a settlement agreement was reached on all issues. The settlement proposed a formula rate with a rate of return on equity of 10.8 percent. PEF received FERC approval of the settlement agreement on December 17, 2007. The new rates were effective January 1, 2008, and increased 2008 revenues by \$2 million.

D. REGIONAL TRANSMISSION ORGANIZATIONS

In 2000, the FERC issued Order 2000, which set minimum characteristics and functions that regional transmission organizations (RTOs) must meet, including independent transmission service. In October 2000, as a result of Order 2000, PEC, along with Duke Energy Corporation and South Carolina Electric & Gas Company, filed an application with the FERC for approval of an RTO, GridSouth. In July 2001, the FERC issued an order provisionally approving GridSouth. However, in July 2001, the FERC issued orders recommending that companies in the southeastern

United States engage in mediation to develop a plan for a single RTO. PEC participated in the mediation; no consensus was reached on creating a southeast RTO. On August 11, 2005, the GridSouth participants notified the FERC that they had terminated the GridSouth project. By order issued October 20, 2005, the FERC terminated the GridSouth proceeding.

On November 16, 2007, PEC petitioned the NCUC to allow it to establish a regulatory asset for PEC's development costs of GridSouth pending disposition in a general rate proceeding. On January 14, 2008, the NCUC issued an order requesting interested parties to file comments regarding PEC's petition on or before January 28, 2008. On February 11, 2008, PEC filed response comments. On December 20, 2007, the NCUC issued an order for one of the other GridSouth partners. As part of that order, the NCUC ruled that the utility's GridSouth development costs should be amortized and recovered over a 10-year period beginning June 2002. Consequently, in 2007, PEC recorded an \$11 million charge to amortization expense. On June 4, 2008, the NCUC issued an order granting PEC the same accounting treatment to its GridSouth development costs. In accordance with the OATT settlement discussed above, in July 2008, PEC began amortization and recovery of the wholesale portion of PEC's GridSouth development costs over a five-year period. The impact of this wholesale amortization was \$1 million in 2008 and is estimated to be \$2 million annually during the remaining amortization period. PEC's recorded investment in GridSouth totaled \$19 million and \$22 million at December 31, 2008 and 2007, respectively.

E. NUCLEAR LICENSE RENEWALS

The NRC operating license for Robinson expires in 2030 and the licenses for Brunswick expire in 2036 for Unit No. 1 and 2034 for Unit No. 2. On December 17, 2008, the NRC issued a 20-year extension on the operating license for Harris, which extends the operating license through 2046. The NRC operating license held by PEF for CR3 currently expires in December 2016. On December 18, 2008, PEF filed an application for a 20-year extension from the NRC on the operating license for CR3, which would extend the operating license through 2036, if approved. PEF anticipates a decision from the NRC in 2011.

8. GOODWILL AND INTANGIBLE ASSETS

We perform annual goodwill impairment tests in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Goodwill was tested for impairment for both the PEC and PEF segments in the second quarters of 2008 and 2007; each test indicated no impairment.

Under SFAS No. 142, all goodwill is assigned to our reporting units that are expected to benefit from the synergies of the business combination. At December 31, 2008 and 2007, our carrying amount of goodwill was \$3.655 billion, with \$1.922 billion assigned to PEC and \$1.733 billion assigned to PEF. The amounts assigned to PEC and PEF are recorded in our Corporate and Other business segment. There were no changes to the assignment of the carrying amounts to PEC and PEF in 2008 or 2007.

Goodwill was previously allocated to our former CCO-Georgia Operations reporting unit, which was comprised of four nonregulated generating plants. As a result of our evaluation of certain business opportunities that impacted the future cash flows of our Georgia Operations, we performed an interim goodwill impairment test during the first quarter of 2006. We estimated the fair value of that reporting unit using the expected present value of future cash flows. As a result of that test, we recognized a pre-tax goodwill impairment charge of \$64 million (\$39 million after-tax) during the first quarter of 2006, which has been reclassified to discontinued operations, net of tax on the Consolidated Statements of Income (See Note 3C).

We apply SFAS No. 144 for the accounting and reporting of impairment or disposal of long-lived assets. On May 22, 2006, we idled our synthetic fuels facilities due to significant uncertainty surrounding future synthetic fuels production. With the idling of these facilities, we performed an evaluation of the intangible assets, which were comprised primarily of capitalized acquisition costs (See Note 3A). The impairment test considered numerous factors including, among other things, continued high oil prices and the then-current idled state of our synthetic fuels facilities. We estimated the fair value using the expected present value of future cash flows. Based on the results of the impairment test, we recorded a pre-tax impairment charge of \$27 million (\$17 million after-tax) during the

quarter ended June 30, 2006, which has been reclassified to discontinued operations, net of tax on the Consolidated Statements of Income.

9. EQUITY

A. COMMON STOCK

PROGRESS ENERGY

At December 31, 2008 and 2007, we had 500 million shares of common stock authorized under our charter, of which 264 million shares and 260 million shares, respectively, were outstanding. During 2008, 2007 and 2006, respectively, we issued approximately 3.7 million, 3.7 million and 4.2 million shares of common stock, resulting in approximately \$132 million, \$151 million and \$185 million in proceeds. Included in these amounts for 2008, 2007 and 2006, respectively, were approximately 3.1 million, 1.0 million and 1.6 million shares for proceeds of approximately \$131 million, \$46 million and \$70 million, issued for the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)) and the Investor Plus Stock Purchase Plan.

On January 12, 2009, the Parent issued 14.4 million shares of common stock at a public offering price of \$37.50 per share. Net proceeds from this offering were approximately \$523 million.

There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2008, there were no significant restrictions on the use of retained earnings (See Note 11B).

PEC

At December 31, 2008 and 2007, PEC was authorized to issue up to 200 million shares of common stock. All shares issued and outstanding are held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2008, there were no significant restrictions on the use of retained earnings. See Note 11B for additional dividend restrictions related to PEC.

PEF

At December 31, 2008 and 2007, PEF was authorized to issue up to 60 million shares of common stock. All PEF common shares issued and outstanding are indirectly held by Progress Energy. There are various provisions limiting the use of retained earnings for the payment of dividends under certain circumstances. At December 31, 2008, there were no significant restrictions on the use of retained earnings. See Note 11B for additional dividend restrictions related to PEF.

B. STOCK-BASED COMPENSATION

EMPLOYEE STOCK OWNERSHIP PLAN

We sponsor the 401(k) for which substantially all full-time nonbargaining unit employees and certain part-time nonbargaining unit employees within participating subsidiaries are eligible. At December 31, 2008 and 2007, participating subsidiaries were PEC, PEF, PVI, Progress Fuels (corporate employees) and PESC. The 401(k), which has matching and incentive goal features, encourages systematic savings by employees and provides a method of acquiring Progress Energy common stock and other diverse investments. The 401(k), as amended in 1989, is an Employee Stock Ownership Plan (ESOP) that can enter into acquisition loans to acquire Progress Energy common stock to satisfy 401(k) common share needs. Qualification as an ESOP did not change the level of benefits received by employees under the 401(k). Common stock acquired with the proceeds of an ESOP loan is held by the 401(k) Trustee in a suspense account. The common stock is released from the suspense account and made available for allocation to participants as the ESOP loan is repaid. Such allocations are used to partially meet common stock needs related to matching and incentive contributions and/or reinvested dividends. All or a portion of the dividends paid on ESOP suspense shares and on ESOP shares allocated to participants may be used to repay ESOP acquisition

loans. Dividends that are used to repay such loans, paid directly to participants or reinvested by participants, are deductible for income tax purposes.

There were 1.1 million and 1.7 million ESOP suspense shares at December 31, 2008 and 2007, respectively, with a fair value of \$45 million and \$82 million, respectively. ESOP shares allocated to plan participants totaled 12.6 million and 10.6 million at December 31, 2008 and 2007, respectively. Our matching and incentive goal compensation cost under the 401(k) is determined based on matching percentages and incentive goal attainment as defined in the plan. Such compensation cost is allocated to participants' accounts in the form of Progress Energy common stock, with the number of shares determined by dividing compensation cost by the common stock market value at the time of allocation. We currently meet common stock share needs with open market purchases, with shares released from the ESOP suspense account and with newly issued shares. Costs for incentive goal compensation are accrued during the fiscal year and typically paid in shares in the following year, while costs for the matching component are typically met with shares in the same year incurred. Matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately \$8 million, \$23 million and \$14 million for the years ended December 31, 2008, 2007 and 2006, respectively. Total matching and incentive costs were approximately \$34 million, \$30 million and \$23 million for the years ended December 31, 2008, 2007 and 2006, respectively. We have a long-term note receivable from the 401(k) Trustee related to the purchase of common stock from us in 1989. The balance of the note receivable from the 401(k) Trustee is included in the determination of unearned ESOP common stock, which reduces common stock equity. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. Interest income on the note receivable and dividends on unallocated ESOP shares are not recognized for financial statement purposes.

Effective January 1, 2008, the 401(k) Plan was revised. As revised, the employer match percentage was increased and the employee stock incentive plan based on goal attainment was discontinued.

PEC

PEC's matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately \$5 million, \$14 million and \$8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Total matching and incentive costs were approximately \$21 million, \$18 million and \$13 million for the years ended December 31, 2008, 2007 and 2006, respectively.

PEF

PEF's matching and incentive costs, which were met and will be met with shares released from the suspense account, totaled approximately \$1 million, \$4 million and \$2 million for the years ended December 31, 2008, 2007 and 2006, respectively. Total matching and incentive costs were approximately \$7 million, \$6 million and \$4 million for the years ended December 31, 2008, 2007 and 2006, respectively.

STOCK OPTIONS

Pursuant to our 1997 Equity Incentive Plan (EIP) and 2002 EIP, amended and restated as of July 10, 2002, we may grant options to purchase shares of Progress Energy common stock to directors, officers and eligible employees for up to 5 million and 15 million shares, respectively. Generally, options granted to employees vest one-third per year with 100 percent vesting at the end of year three, while options granted to directors vest 100 percent at the end of one year. The options expire 10 years from the date of grant. All option grants have an exercise price equal to the fair market value of our common stock on the grant date. We curtailed our stock option program in 2004 and replaced that compensation program with other programs. No stock options have been granted since 2004. We issue new shares of common stock to satisfy the exercise of previously issued stock options.

PROGRESS ENERGY

A summary of the status of our stock options at December 31, 2008, and changes during the year then ended, is presented below:

(option quantities in millions)	Number of Options	Weighted-Average Exercise Price
Options outstanding, January 1	1.7	\$43.99
Canceled	—	44.38
Exercised	(0.1)	43.83
Options outstanding, December 31	1.6	43.99
Options exercisable, December 31	1.6	43.99

The options outstanding and exercisable at December 31, 2008, had a weighted-average remaining contractual life of 4.0 years. Aggregate intrinsic value as of December 31, 2008, was not significant. Total intrinsic value of options exercised during the years ended December 31, 2007 and 2006, respectively, was \$17 million and \$10 million. The total intrinsic value of options exercised during the year ended December 31, 2008, was not significant.

Compensation cost, for expense purposes subsequent to the adoption of SFAS No. 123R, is measured at the grant date based on the fair value of the award and is recognized over the vesting period. The fair value for these options was estimated at the grant date using a Black-Scholes option pricing model. Dividend yield and the volatility factor were calculated using three years of historical trend information. The expected term was based on the contractual life of the options.

At December 31, 2006, all options were fully vested; therefore, no compensation expense was recognized in 2008 or 2007. Stock option expense totaling \$2 million was recognized in income during the year ended December 31, 2006, with a recognized tax benefit of \$1 million. No compensation cost related to stock options was capitalized during the year.

Cash received from the exercise of stock options totaled \$1 million, \$105 million and \$115 million, respectively, during the years ended December 31, 2008, 2007 and 2006. The actual tax benefit for tax deductions from stock option exercises for the years ended December 31, 2007 and 2006, was \$6 million and \$4 million, respectively. The actual tax benefit deduction for stock option exercises for the year ended December 31, 2008, was not significant.

PEC

Stock option expense totaling \$1 million was recognized in income during the year ended December 31, 2006, with a recognized tax benefit of less than \$1 million. No compensation cost related to stock options was capitalized during the year. As of December 31, 2006, all options were fully vested; therefore, no compensation expense was recognized in 2008 or 2007.

PEF

Stock option expense totaling less than \$1 million was recognized in income during the year ended December 31, 2006, with a recognized tax benefit of less than \$1 million. No compensation cost related to stock options was capitalized during the year. As of December 31, 2006, all options were fully vested; therefore, no compensation expense was recognized in 2008 or 2007.

OTHER STOCK-BASED COMPENSATION PLANS

We have additional compensation plans for our officers and key employees that are stock-based in whole or in part. Our long-term compensation program currently includes two types of equity-based incentives: performance shares under the Performance Share Sub Plan (PSSP) and restricted stock programs. The compensation program was

established pursuant to our 1997 EIP and was continued under our 2002 and 2007 EIPs, as amended and restated from time to time.

We granted cash-settled PSSP awards prior to 2005. Since 2005, we have been granting stock-settled PSSP awards. Under the terms of the PSSP, our officers and key employees are granted a target number of performance shares on an annual basis that vest over a three-year consecutive period. Each performance share has a value that is equal to, and changes with, the value of a share of Progress Energy common stock, and dividend equivalents are accrued on, and reinvested in, additional performance shares. Prior to 2007, shares issued under the PSSP (both cash-settled and stock-settled) had two equally weighted performance measures, both based on our results as compared to a peer group of utilities. In 2007, the PSSP was redesigned, and shares issued under the revised plan use one performance measure. The outcome of the performance measures can result in an increase or decrease from the target number of performance shares granted. For cash-settled awards, compensation expense is recognized over the vesting period based on the estimated fair value of the award, which is periodically updated to reflect factors such as changes in stock price and the status of performance measures. The stock-settled PSSP is similar to the cash-settled PSSP, except that we distribute common stock shares to participants equivalent to the number of performance shares that ultimately vest. We issue new shares of common stock to satisfy the requirements of the PSSP program. Also, the fair value of the stock-settled award is generally established at the grant date based on the fair value of common stock on that date, with subsequent adjustments made to reflect the status of the performance measure. Compensation expense for all awards is reduced by estimated forfeitures. PSSP cash-settled liabilities totaling \$2 million, \$3 million and \$4 million were paid in the years ended December 31, 2008, 2007 and 2006, respectively. A summary of the status of the target performance shares under the stock-settled PSSP plan at December 31, 2008, and changes during the year then ended is presented below:

	Number of Stock-Settled Performance Shares ^(a)	Weighted-Average Grant Date Fair Value
Beginning balance	1,629,995	\$44.97
Granted	271,964	42.41
Vested	(441,435)	44.23
Paid ^(b)	(228,793)	50.70
Forfeited	(113,127)	44.76
Ending balance	1,118,604	46.46

^(a) Amounts reflect target shares to be issued. The final number of shares issued will be dependent upon the outcome of the performance measures discussed above.

^(b) Shares paid include only target shares as originally granted. Additional shares of 131,881 were issued and paid due to exceeding established performance thresholds and due to dividends earned.

For the years ended December 31, 2007 and 2006, the weighted-average grant date fair value of stock-settled performance shares granted was \$50.70 and \$44.27, respectively.

The Restricted Stock Award program allows us to grant shares of restricted common stock to our officers and key employees. The restricted shares generally vest on a graded vesting schedule over a minimum of three years. Compensation expense, which is based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. Restricted shares are not included as shares outstanding in the basic earnings per share calculation until the shares are no longer forfeitable. A summary of the status of the nonvested restricted stock shares at December 31, 2008, and changes during the year then ended, is presented below:

	Number of Restricted Shares	Weighted-Average Grant Date Fair Value
Beginning balance	268,635	\$43.77
Granted	—	—
Vested	(71,134)	43.29
Forfeited	(5,400)	44.63
Ending balance	192,101	43.93

For the years ended December 31, 2007 and 2006, the weighted-average grant date fair value of restricted stock granted was \$49.54 and \$44.51, respectively.

The total fair value of restricted stock awards vested during the years ended December 31, 2008, 2007 and 2006 was \$3 million, \$13 million and \$4 million, respectively. Cash expended to purchase shares for the restricted stock program totaled \$8 million during the year ended December 31, 2006. Cash expended to purchase shares for 2008 and 2007 was not significant due to the curtailment of the Restricted Stock Award program and the rollout of the new restricted stock unit (RSU) program.

Beginning in 2007, we began issuing RSUs rather than restricted stock awards for our officers, vice presidents, managers and key employees. RSUs awarded to eligible employees are generally subject to either three- or five-year cliff vesting or five-year graded vesting. We issue new shares of common stock to satisfy the requirements of the RSU program. Compensation expense, based on the fair value of common stock at the grant date, is recognized over the applicable vesting period, with corresponding increases in common stock equity. RSUs are not included as shares outstanding in the basic earnings per share calculation until shares are no longer forfeitable. Units are converted to shares upon vesting. A summary of the status of nonvested RSUs at December 31, 2008, and changes during the year then ended, is presented below:

	Number of Restricted Units	Weighted-Average Grant Date Fair Value
Beginning balance	824,458	\$50.29
Granted	489,603	42.48
Vested	(187,318)	46.67
Forfeited	(50,207)	50.55
Ending balance	1,076,536	46.86

The total fair value of RSUs vested during the year ended December 31, 2008, was \$9 million. There were no expenditures to purchase stock to satisfy RSU plan obligations in 2008.

Our Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of \$31 million for the year ended December 31, 2008, with a recognized tax benefit of \$12 million. The total expense recognized on our Consolidated Statements of Income for other stock-based compensation plans was \$64 million with a recognized tax benefit of \$24 million and \$25 million, with a recognized tax benefit of \$10 million, for the years ended December 31, 2007 and 2006, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

At December 31, 2008, there was \$34 million of total unrecognized compensation cost related to nonvested other stock-based compensation plan awards, which is expected to be recognized over a weighted-average period of 1.57 years.

PEC

PEC's Consolidated Statements of Income included total recognized expense for other stock-based compensation plans of \$18 million for the year ended December 31, 2008, with a recognized tax benefit of \$7 million. The total expense recognized on PEC's Consolidated Statements of Income for other stock-based compensation plans was \$38 million with a recognized tax benefit of \$15 million and \$14 million, with a recognized tax benefit of \$6 million, for the years ended December 31, 2007 and 2006, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

PEF

PEF's Statements of Income included total recognized expense for other stock-based compensation plans of \$13 million for the year ended December 31, 2008, with a recognized tax benefit of \$5 million. The total expense recognized on PEF's Statements of Income for other stock-based compensation plans was \$21 million with a recognized tax benefit of \$8 million and \$7 million, with a recognized tax benefit of \$3 million, for the years ended December 31, 2007 and 2006, respectively. No compensation cost related to other stock-based compensation plans was capitalized.

C. EARNINGS PER COMMON SHARE

Basic earnings per common share are based on the weighted-average number of common shares outstanding. Diluted earnings per share include the effects of the nonvested portion of restricted stock, restricted stock unit awards and performance share awards and the effect of stock options outstanding.

A reconciliation of the weighted-average number of common shares outstanding for the years ended December 31 for basic and dilutive purposes follows:

(in millions)	2008	2007	2006
Weighted-average common shares – basic	260.3	256.1	250.4
Net effect of dilutive stock-based compensation plans	0.5	0.6	0.4
Weighted-average shares – fully diluted	260.8	256.7	250.8

There were no adjustments to net income or to income from continuing operations between the calculations of basic and fully diluted earnings per common share. ESOP shares that have not been committed to be released to participants' accounts are not considered outstanding for the determination of earnings per common share. The weighted-average ESOP shares totaled 1.2 million, 1.8 million and 2.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. There were 1.6 million, 0.1 million and 1.8 million stock options outstanding at December 31, 2008, 2007 and 2006, respectively, which were not included in the weighted-average number of shares for computing the fully diluted earnings per share because they were antidilutive.

D. ACCUMULATED OTHER COMPREHENSIVE LOSS

Components of accumulated other comprehensive loss, net of tax, at December 31 were as follows:

(in millions)	Progress Energy		PEC		PEF	
	2008	2007	2008	2007	2008	2007
Loss on cash flow hedges	\$(57)	\$(23)	\$(35)	\$(10)	\$(1)	\$(8)
Pension and other postretirement benefits	(58)	(13)	–	–	–	–
Other	(1)	2	–	–	–	–
Total accumulated other comprehensive loss	\$(116)	\$(34)	\$(35)	\$(10)	\$(1)	\$(8)

10. PREFERRED STOCK OF SUBSIDIARIES – NOT SUBJECT TO MANDATORY REDEMPTION

All of our preferred stock was issued by our subsidiaries and was not subject to mandatory redemption. At December 31, 2008 and 2007, preferred stock outstanding consisted of the following:

(dollars in millions, except share and per share data)	Shares		Redemption	Total
	Authorized	Outstanding	Price	
PEC				
Cumulative, no par value \$5 Preferred Stock	300,000			
\$5 Preferred		236,997	\$110.00	\$24
Cumulative, no par value Serial Preferred Stock	20,000,000			
\$4.20 Serial Preferred		100,000	102.00	10
\$5.44 Serial Preferred		249,850	101.00	25
Cumulative, no par value Preferred Stock A	5,000,000	—	—	—
No par value Preference Stock	10,000,000	—	—	—
Total PEC				59
PEF				
Cumulative, \$100 par value Preferred Stock	4,000,000			
4.00% \$100 par value Preferred		39,980	104.25	4
4.40% \$100 par value Preferred		75,000	102.00	8
4.58% \$100 par value Preferred		99,990	101.00	10
4.60% \$100 par value Preferred		39,997	103.25	4
4.75% \$100 par value Preferred		80,000	102.00	8
Cumulative, no par value Preferred Stock	5,000,000	—	—	—
\$100 par value Preference Stock	1,000,000	—	—	—
Total PEF				34
Total preferred stock of subsidiaries				\$93

11. DEBT AND CREDIT FACILITIES

A. DEBT AND CREDIT FACILITIES

At December 31 our long-term debt consisted of the following (maturities and weighted-average interest rates at December 31, 2008):

(in millions)		2008	2007
Parent			
Senior unsecured notes, maturing 2010-2031	6.96%	\$2,600	\$2,600
Draws on revolving credit agreement, expiring 2012	2.52%	100	—
Unamortized premium and discount, net		(4)	(3)
Long-term debt, net		2,696	2,597
PEC			
First mortgage bonds, maturing 2009-2038	5.74%	2,325	2,000
Pollution control obligations, maturing 2017-2024	2.25%	669	669
Senior unsecured notes, maturing 2012	6.50%	500	500
Medium-term notes		—	300
Miscellaneous notes	6.01%	22	22
Unamortized premium and discount, net		(7)	(8)
Current portion of long-term debt		—	(300)
Long-term debt, net		3,509	3,183
PEF			
First mortgage bonds, maturing 2010-2038	5.81%	3,800	2,380
Pollution control obligations, maturing 2018-2027	1.63%	241	241
Senior unsecured notes		—	450
Medium-term notes, maturing 2028	6.75%	150	152
Unamortized premium and discount, net		(9)	(5)
Current portion of long-term debt		—	(532)
Long-term debt, net		4,182	2,686
Florida Progress Funding Corporation (See Note 23)			
Debt to affiliated trust, maturing 2039	7.10%	309	309
Unamortized premium and discount, net		(37)	(38)
Long-term debt, net		272	271
Progress Capital Holdings, Inc.			
Medium-term notes		—	45
Current portion of long-term debt		—	(45)
Long-term debt, net		—	—
Progress Energy consolidated long-term debt, net		\$10,659	\$8,737

At December 31, 2008, the Parent had a revolving credit agreement (RCA) used to support its commercial paper borrowings. We classified \$100 million of the \$600 million outstanding under the Parent's RCA as long-term debt. Settlement of a portion of this obligation did not require the use of working capital in 2009 as \$100 million of the proceeds from the January 12, 2009 equity issuance was used to reduce RCA borrowings. No amount was outstanding under the Parent's RCA at December 31, 2007. Additionally, we classified PEC's \$400 million 5.95% Senior Notes, due March 1, 2009, as long-term debt, as the maturity will be paid with the proceeds of PEC's \$600 million January 15, 2009 debt issuance discussed below.

On March 13, 2008, PEC issued \$325 million of First Mortgage Bonds, 6.30% Series due 2038. The proceeds were used to repay the maturity of PEC's \$300 million 6.65% Medium-Term Notes, Series D, due April 1, 2008, and the remainder was placed in temporary investments for general corporate use as needed.

On February 1, 2008, PEF paid at maturity \$80 million of its 6.875% First Mortgage Bonds with available cash on hand and commercial paper borrowings. On June 18, 2008, PEF issued \$500 million of First Mortgage Bonds, 5.65% Series due 2018 and \$1.000 billion of First Mortgage Bonds, 6.40% Series due 2038. A portion of the proceeds was used to repay PEF's utility money pool borrowings and the remaining proceeds were placed in temporary investments for general corporate use as needed. On August 14, 2008, PEF redeemed the entire outstanding \$450 million principal amount of its Series A Floating Rate Notes due November 14, 2008, at 100 percent of par plus accrued interest. The redemption was funded with a portion of the proceeds from the June 18, 2008 debt issuance.

On May 27, 2008, Progress Capital Holdings, Inc., one of our wholly owned subsidiaries, paid at maturity its remaining outstanding debt of \$45 million of 6.46% Medium-Term Notes with available cash on hand.

On January 12, 2009, the Parent issued 14.4 million shares of common stock at a public offering price of \$37.50 per share. Net proceeds from this offering were \$523 million. We used \$100 million of the proceeds to reduce the Parent's RCA borrowings and the remainder was used for general corporate purposes.

On January 15, 2009, PEC issued \$600 million of First Mortgage Bonds, 5.30% Series due 2019. A portion of the proceeds will be used to repay the maturity of PEC's \$400 million 5.95% Senior Notes, due March 1, 2009. The remaining proceeds were used to repay PEC's outstanding money pool balance and for general corporate purposes.

At December 31, 2008 and 2007, we had committed lines of credit used to support our commercial paper borrowings. As a result of financial and economic conditions in 2008, the short-term credit markets tightened, resulting in volatility in commercial paper durations and interest rates. On November 3, 2008, the Parent borrowed \$600 million under its RCA to reduce rollover risk in the commercial paper markets, which is reflected in the outstanding borrowings under our credit facilities as shown in the table below. As discussed above, of the \$600 million outstanding, \$100 million was classified as long-term debt at December 31, 2008. We will continue to monitor the commercial paper and short-term credit markets to determine when to repay the outstanding balance of the RCA loan, while maintaining an appropriate level of liquidity. At December 31, 2007, we had no outstanding borrowings under our credit facilities. We are required to pay minimal annual commitment fees to maintain our credit facilities.

The following table summarizes our RCAs and available capacity at December 31, 2008:

(in millions)	Description	Total	Outstanding ^(a)	Reserved ^(b)	Available
Parent	Five-year (expiring 5/3/12)	\$1,130	\$ 600	\$99	\$431
PEC	Five-year (expiring 6/28/11)	450	—	110	340
PEF	Five-year (expiring 3/28/11)	450	—	371	79
Total credit facilities		\$2,030	\$ 600	\$580	\$850

^(a) In February 2009, the Parent repaid \$100 million of its outstanding RCA borrowings.

^(b) To the extent amounts are reserved for commercial paper or letters of credit outstanding, they are not available for additional borrowings. At December 31, 2008, the Parent had \$30 million of letters of credit issued, which were supported by the RCA.

The RCAs provide liquidity support for issuances of commercial paper and other short-term obligations. Fees and interest rates under Progress Energy's RCA are based upon the credit rating of Progress Energy's long-term unsecured senior noncredit-enhanced debt, currently rated as Baa2 by Moody's Investors Service, Inc. (Moody's) and BBB by S&P. Fees and interest rates under PEC's RCA are based upon the credit rating of PEC's long-term unsecured senior noncredit-enhanced debt, currently rated as A3 by Moody's and BBB+ by S&P. Fees and interest rates under PEF's RCA are based upon the credit rating of PEF's long-term unsecured senior noncredit-enhanced debt, currently rated as A3 by Moody's and BBB+ by S&P.

The following table summarizes the short-term portion of our outstanding RCA borrowings, our outstanding commercial paper and related weighted-average interest rates at December 31:

(in millions)	2008		2007	
Parent	2.81%	\$569	5.48%	\$201
PEC	4.36%	110		—
PEF	4.41%	371		—
Total	3.54%	\$1,050		\$201

The following table presents the aggregate maturities of long-term debt at December 31, 2008:

(in millions)	Progress Energy		
	Consolidated	PEC	PEF
2009	\$—	\$—	\$—
2010	406	6	300
2011	1,000	—	300
2012	1,050	500	—
2013	825	400	425
Thereafter	7,435	2,610	3,166
Total	\$10,716	\$3,516	\$4,191

B. COVENANTS AND DEFAULT PROVISIONS

FINANCIAL COVENANTS

The Parent's, PEC's and PEF's credit lines contain various terms and conditions that could affect the ability to borrow under these facilities. All of the credit facilities include a defined maximum total debt to total capital ratio (leverage). At December 31, 2008, the maximum and calculated ratios for the Progress Registrants, pursuant to the terms of the agreements, were as follows:

Company	Maximum Ratio	Actual Ratio ^(a)
Parent	68%	57.8%
PEC	65%	45.5%
PEF	65%	58.6%

^(a) Indebtedness as defined by the bank agreements includes certain letters of credit and guarantees not recorded on the Consolidated Balance Sheets.

CROSS-DEFAULT PROVISIONS

Each of these credit agreements contains cross-default provisions for defaults of indebtedness in excess of the following thresholds: \$50 million for the Parent and \$35 million each for PEC and PEF. Under these provisions, if the applicable borrower or certain subsidiaries of the borrower fail to pay various debt obligations in excess of their respective cross-default threshold, the lenders of that credit facility could accelerate payment of any outstanding borrowing and terminate their commitments to the credit facility. The Parent's cross-default provision can be triggered by the Parent and its significant subsidiaries, as defined in the credit agreement. PEC's and PEF's cross-default provisions can be triggered only by defaults of indebtedness by PEC and its subsidiaries and PEF, respectively, not each other or other affiliates of PEC and PEF.

Additionally, certain of the Parent's long-term debt indentures contain cross-default provisions for defaults of indebtedness in excess of amounts ranging from \$25 million to \$50 million; these provisions apply only to other obligations of the Parent, primarily commercial paper issued by the Parent, not its subsidiaries. In the event that these indenture cross-default provisions are triggered, the debt holders could accelerate payment of approximately \$2.6 billion in long-term debt. Certain agreements underlying our indebtedness also limit our ability to incur additional liens or engage in certain types of sale and leaseback transactions.

OTHER RESTRICTIONS

Neither the Parent's Articles of Incorporation nor any of its debt obligations contain any restrictions on the payment of dividends, so long as no shares of preferred stock are outstanding. At December 31, 2008, the Parent had no shares of preferred stock outstanding.

Certain documents restrict the payment of dividends by the Parent's subsidiaries as outlined below.

PEC

PEC's mortgage indenture provides that, as long as any first mortgage bonds are outstanding, cash dividends and distributions on its common stock and purchases of its common stock are restricted to aggregate net income available for PEC since December 31, 1948, plus \$3 million, less the amount of all preferred stock dividends and distributions, and all common stock purchases, since December 31, 1948. At December 31, 2008, none of PEC's cash dividends or distributions on common stock was restricted.

In addition, PEC's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, the aggregate amount of cash dividends or distributions on common stock since December 31, 1945, including the amount then proposed to be expended, shall be limited to 75 percent of the aggregate net income available for common stock if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. PEC's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. At December 31, 2008, PEC's common stock equity was approximately 54.7 percent of total capitalization. At December 31, 2008, none of PEC's cash dividends or distributions on common stock was restricted.

PEF

PEF's mortgage indenture provides that as long as any first mortgage bonds are outstanding, it will not pay any cash dividends upon its common stock, or make any other distribution to the stockholders, except a payment or distribution out of net income of PEF subsequent to December 31, 1943. At December 31, 2008, none of PEF's cash dividends or distributions on common stock was restricted.

In addition, PEF's Articles of Incorporation provide that so long as any shares of preferred stock are outstanding, no cash dividends or distributions on common stock shall be paid, if the aggregate amount thereof since April 30, 1944, including the amount then proposed to be expended, plus all other charges to retained earnings since April 30, 1944, exceeds all credits to retained earnings since April 30, 1944, plus all amounts credited to capital surplus after April 30, 1944, arising from the donation to PEF of cash or securities or transfers of amounts from retained earnings to capital surplus. PEF's Articles of Incorporation also provide that cash dividends on common stock shall be limited to 75 percent of the current year's net income available for dividends if common stock equity falls below 25 percent of total capitalization, and to 50 percent if common stock equity falls below 20 percent. On December 31, 2008, PEF's common stock equity was approximately 44.6 percent of total capitalization. At December 31, 2008, none of PEF's cash dividends or distributions on common stock was restricted.

C. COLLATERALIZED OBLIGATIONS

PEC's and PEF's first mortgage bonds are collateralized by their respective mortgage indentures. Each mortgage constitutes a first lien on substantially all of the fixed properties of the respective company, subject to certain permitted encumbrances and exceptions. Each mortgage also constitutes a lien on subsequently acquired property. At December 31, 2008, PEC and PEF had a total of \$2.994 billion and \$4.041 billion, respectively, of first mortgage

bonds outstanding, including those related to pollution control obligations. Each mortgage allows the issuance of additional mortgage bonds upon the satisfaction of certain conditions.

D. GUARANTEES OF SUBSIDIARY DEBT

See Note 18 on related party transactions for a discussion of obligations guaranteed or secured by affiliates.

E. HEDGING ACTIVITIES

We use interest rate derivatives to adjust the fixed and variable rate components of our debt portfolio and to hedge cash flow risk related to commercial paper and fixed-rate debt to be issued in the future. See Note 17 for a discussion of risk management activities and derivative transactions.

12. INVESTMENTS

A. INVESTMENTS

At December 31, 2008 and 2007, we had investments in various debt and equity securities, cost investments, company-owned life insurance and investments held in trust funds as follows:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2008	2007	2008	2007	2008	2007
Nuclear decommissioning trust (See Note 4D)	\$1,089	\$1,384	\$672	\$804	\$417	\$580
Equity method investments ^(a)	22	23	9	11	2	2
Cost investments ^(b)	7	8	3	3	—	—
Company-owned life insurance ^(c)	49	51	34	34	—	—
Benefit investment trusts ^(d)	184	199	85	80	30	39
Marketable debt securities	1	1	1	1	—	—
Total	\$1,352	\$1,666	\$804	\$933	\$449	\$621

^(a) Investments in unconsolidated companies are included in miscellaneous other property and investments in the Consolidated Balance Sheets using the equity method of accounting (See Note 1). These investments are primarily in limited liability corporations and limited partnerships, and the earnings from these investments are recorded on a pre-tax basis (See Note 20).

^(b) Investments stated principally at cost are included in miscellaneous other property and investments in the Consolidated Balance Sheets.

^(c) Investments in company-owned life insurance are included in miscellaneous other property and investments in the Consolidated Balance Sheets and approximate fair value due to the nature of the investment.

^(d) Benefit investment trusts are included in miscellaneous other property and investments in the Consolidated Balance Sheets. At December 2008 and 2007, \$142 million and \$155 million, respectively, of investments in company-owned life insurance were held in Progress Energy's trusts. Substantially all of PEC's and PEF's benefit investment trusts are invested in company-owned life insurance.

B. IMPAIRMENT OF INVESTMENTS

We evaluate declines in value of investments under the criteria of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (SFAS No. 115), and FASB Staff Position FAS 115-1/124-1, "The Meaning of Other-Than-Temporary Impairments and Its Application to Certain Investments" (See Note 1D). Declines in fair value to below the cost basis judged to be other than temporary on available-for-sale securities are included in long-term regulatory liabilities on the Consolidated Balance Sheets for securities held in our nuclear decommissioning trust funds and in operation and maintenance expense and other, net on the Consolidated Statements of Income for securities in our benefit investment trusts and other available-for-sale securities. See Note 13 for additional information. There were no material other-than-temporary impairments in 2008, 2007 or 2006.

13. FAIR VALUE DISCLOSURES

A. DEBT AND INVESTMENTS

PROGRESS ENERGY

DEBT

The carrying amount of our long-term debt, including current maturities, was \$10.659 billion and \$9.614 billion at December 31, 2008 and 2007, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$11.260 billion and \$9.897 billion at December 31, 2008 and 2007, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values, and for which we do not have control, are accounted for as available-for-sale securities at fair value in accordance with SFAS No. 115. These investments include investments held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning the Utilities' nuclear plants (See Note 4D). These nuclear decommissioning trust funds are primarily invested in stocks, bonds and cash equivalents classified as available-for-sale. Nuclear decommissioning trust funds are presented on the Consolidated Balance Sheets at fair value. In addition to the nuclear decommissioning trust funds, we hold other debt and equity investments classified as available-for-sale in miscellaneous other property and investments on the Consolidated Balance Sheets at fair value. Our available-for-sale securities at December 31, 2008 and 2007 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2008				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$518	\$(93)	\$134	\$559
Debt securities	478	(27)	15	466
Cash equivalents	114	—	—	114
Total	\$1,110	\$(120)	\$149	\$1,139
2007				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$475	\$(10)	\$354	\$819
Debt securities	578	(4)	11	585
Cash equivalents	18	—	—	18
Total	\$1,071	\$(14)	\$365	\$1,422

The NRC requires nuclear decommissioning trusts to be managed by third-party investment managers who have a right to sell securities without our authorization. Under GAAP, such securities are considered to be impaired if they are in a loss position. Due to the ratemaking treatment applicable to nuclear decommissioning (See Note 12B), gains and losses on the nuclear decommissioning trusts accrue to the benefit or detriment of ratepayers and are included in the determination of regulatory assets and liabilities (See Note 7A), with no earnings impact. Therefore, the tables above include the book value and unrealized gains and losses for the nuclear decommissioning trusts based on the original cost of the trust investments; \$118 million of the unrealized losses and \$148 million of the unrealized gains for 2008 and all unrealized losses and gains for 2007 relate to the nuclear decommissioning trusts.

The aggregate fair value of investments that related to the 2008 and 2007 unrealized losses were \$374 million and \$243 million, respectively.

At December 31, 2008, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$2
Due after one through five years	183
Due after five through 10 years	126
Due after 10 years	155
Total	\$466

Selected information about our sales of available-for-sale securities during the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)	2008	2007	2006
Proceeds	\$1,092	\$1,334	\$2,547
Realized gains	29	35	33
Realized losses	86	23	19

Previously, we invested available cash balances in various financial instruments, such as tax-exempt debt securities (See Note 12A). For the years ended December 31, 2007 and 2006, our proceeds from the sale of these securities were \$399 million and \$1.7 billion, respectively. For the year ended December 31, 2008, our proceeds were primarily related to nuclear decommissioning trusts. Some of our benefit investment trusts are managed by third-party investment managers who have the right to sell securities without our authorization. Losses at December 31, 2008, 2007 and 2006 for investments in these benefit investment trusts were not material. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2008 and 2007, our other securities had no investments in a continuous loss position for greater than 12 months.

PEC

DEBT

The carrying amount of PEC's long-term debt, including current maturities, was \$3.509 billion and \$3.483 billion at December 31, 2008 and 2007, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$3.690 billion and \$3.545 billion at December 31, 2008 and 2007, respectively.

INVESTMENTS

External trust funds have been established to fund certain costs of nuclear decommissioning (See Note 4D). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents and are classified as available-for-sale. Nuclear decommissioning trust funds are presented on the PEC Consolidated Balance Sheets at fair value. In addition to the nuclear decommissioning trust fund, PEC holds other debt and equity investments classified as available-for-sale in miscellaneous other property and investments on the PEC Consolidated Balance Sheets at fair value. PEC's available-for-sale securities at December 31, 2008 and 2007 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2008				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$314	\$(55)	\$75	\$334
Debt securities	249	(10)	11	250
Cash equivalents	105	—	—	105
Total	\$668	\$(65)	\$86	\$689
2007				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$262	\$(6)	\$191	\$447
Debt securities	344	(3)	6	347
Cash equivalents	11	—	—	11
Total	\$617	\$(9)	\$197	\$805

The NRC requires nuclear decommissioning trusts to be managed by third-party investment managers who have a right to sell securities without our authorization. Under GAAP, such securities are considered to be impaired if they are in a loss position. Due to the ratemaking treatment applicable to nuclear decommissioning (See Note 12B), gains and losses on the nuclear decommissioning trusts accrue to the benefit or detriment of ratepayers and are included in the determination of regulatory assets and liabilities (See Note 7A), with no earnings impact. Therefore, the tables above include the book value and unrealized gains and losses for the nuclear decommissioning trusts based on the original cost of the trust investments; all of the unrealized losses and gains for 2008 and 2007 relate to the nuclear decommissioning trusts.

The aggregate fair value of investments that related to the 2008 and 2007 unrealized losses were \$191 million and \$166 million, respectively.

At December 31, 2008, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$2
Due after one through five years	142
Due after five through 10 years	57
Due after 10 years	49
Total	\$250

Selected information about PEC's sales of available-for-sale securities during the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)	2008	2007	2006
Proceeds	\$579	\$609	\$995
Realized gains	12	12	21
Realized losses	48	13	10

Previously, PEC invested available cash balances in various financial instruments, such as tax-exempt debt securities (See Note 12A). For the year ended December 31, 2006, PEC's proceeds from the sale of these securities were \$531 million. For the years ended December 31, 2008 and 2007, PEC's proceeds were primarily related to nuclear decommissioning trusts. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2008, PEC did not have any other securities. At December 31, 2007, PEC's other securities had no investments in a continuous loss position for greater than 12 months.

PEF

DEBT

The carrying amount of PEF's long-term debt, including current maturities, was \$4.182 billion and \$3.218 billion at December 31, 2008 and 2007, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$4.546 and \$3.239 billion at December 31, 2008 and 2007, respectively.

INVESTMENTS

External trust funds have been established to fund certain costs of nuclear decommissioning (See Note 4D). These nuclear decommissioning trust funds are invested in stocks, bonds and cash equivalents and are classified as available-for-sale. Nuclear decommissioning trust funds are presented on the Balance Sheets at fair value. PEF's available-for-sale securities at December 31, 2008 and 2007 are summarized below. Net nuclear decommissioning trust fund unrealized gains are included in regulatory liabilities (See Note 7A).

2008				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$204	\$(38)	\$59	\$225
Debt securities	189	(15)	3	177
Cash equivalents	9	—	—	9
Total	\$402	\$(53)	\$62	\$411
2007				
(in millions)	Book Value	Unrealized Losses	Unrealized Gains	Estimated Fair Value
Equity securities	\$213	\$(4)	\$163	\$372
Debt securities	194	(1)	5	198
Cash equivalents	7	—	—	7
Total	\$414	\$(5)	\$168	\$577

The NRC requires nuclear decommissioning trusts to be managed by third-party investment managers who have a right to sell securities without our authorization. Under GAAP, such securities are considered to be impaired if they are in a loss position. Due to the ratemaking treatment applicable to nuclear decommissioning (See Note 12B), gains and losses on the nuclear decommissioning trusts accrue to the benefit or detriment of ratepayers and are included in the determination of regulatory assets and liabilities (See Note 7A), with no earnings impact. Therefore, the tables above include the book value and unrealized gains and losses for the nuclear decommissioning trusts based on the

original cost of the trust investments; all of the unrealized losses and gains for 2008 and 2007 relate to the nuclear decommissioning trusts.

The aggregate fair value of investments that related to the 2008 and 2007 unrealized losses were \$165 million and \$77 million, respectively.

At December 31, 2008, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$—
Due after one through five years	34
Due after five through 10 years	58
Due after 10 years	85
Total	\$177

Selected information about PEF's sales of available-for-sale securities for the years ended December 31 is presented below. Realized gains and losses were determined on a specific identification basis.

(in millions)	2008	2007	2006
Proceeds	\$394	\$535	\$509
Realized gains	16	22	12
Realized losses	36	9	8

Previously, PEF invested available cash balances in various financial instruments, such as tax-exempt debt securities (See Note 12A). For the years ended December 31, 2007 and 2006, PEF's proceeds from the sale of these securities were \$329 million and \$235 million, respectively. For the year ended December 31, 2008, all of PEF's proceeds were related to nuclear decommissioning trusts. Other securities are evaluated on an individual basis to determine if a decline in fair value below the carrying value is other-than-temporary (See Note 1D). At December 31, 2008, PEF did not have any other securities. At December 31, 2007, PEF's other securities had no investments in a continuous loss position for greater than 12 months.

B. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value under GAAP, and requires enhanced disclosures about assets and liabilities carried at fair value. SFAS No. 157 also establishes a fair value hierarchy that categorizes and prioritizes the inputs that should be used to estimate fair value. In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed for us the effective date of SFAS No. 157 until January 1, 2009, for all nonfinancial assets and nonfinancial liabilities, except for those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

We implemented SFAS No. 157 as of January 1, 2008, for all recurring financial assets and liabilities. The adoption of SFAS No. 157 for recurring financial assets and liabilities did not have a material impact on our or the Utilities' financial position or results of operations. We utilized the deferral provision of FSP No. FAS 157-2 for all nonrecurring nonfinancial assets and liabilities within its scope. Major categories of our assets and liabilities to which the deferral applies include reporting units and long-lived asset groups measured at fair value for impairment purposes, AROs initially recognized at fair value, and nonfinancial liabilities for exit and disposal costs and indemnifications initially measured at fair value. The January 1, 2009, adoption of SFAS No. 157 for nonrecurring nonfinancial assets and liabilities did not have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). SFAS No. 157 permits the use of a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical

expedient and requires the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, corroborated by market data, or generally unobservable. SFAS No. 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – The pricing inputs are unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 – The pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes financial instruments valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives, such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less than active markets.

Level 3 – The pricing inputs include significant inputs generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments may include longer-term instruments that extend into periods where quoted prices or other observable inputs are not available.

The following tables set forth by level within the fair value hierarchy our and the Utilities' financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Progress Energy

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Commodity derivatives	\$—	\$10	\$—	\$10
Nuclear decommissioning trust funds	592	497	—	1,089
Other marketable securities	16	38	—	54
Total assets	\$608	\$545	\$—	\$1,153
Liabilities				
Commodity derivatives	\$—	\$(647)	\$(41)	\$(688)
Interest rate derivatives	—	(65)	—	(65)
CVO derivatives	—	(34)	—	(34)
Total liabilities	\$—	\$(746)	\$(41)	\$(787)

PEC

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Nuclear decommissioning trust funds	\$368	\$304	\$—	\$672
Other marketable securities	2	—	—	2
Total assets	\$370	\$304	\$—	\$674
Liabilities				
Commodity derivatives	\$—	\$(77)	\$(22)	\$(99)
Interest rate derivatives	—	(35)	—	(35)
Total liabilities	\$—	\$(112)	\$(22)	\$(134)

PEF

(in millions)	Level 1	Level 2	Level 3	Total
Assets				
Commodity derivatives	\$—	\$10	\$—	\$10
Nuclear decommissioning trust funds	224	193	—	417
Other marketable securities	1	—	—	1
Total assets	\$225	\$203	\$—	\$428
Liabilities				
Commodity derivatives	\$—	\$(570)	\$(19)	\$(589)

The determination of the fair values above incorporates various factors required under SFAS No. 157, including risks of nonperformance by us or our counterparties. Such risks consider not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits or letters of credit), but also the impact of our and the Utilities' credit risk on our liabilities.

Commodity derivatives reflect positions held by us and the Utilities. Most over-the-counter commodity and interest rate derivatives are valued using financial models which utilize observable inputs for similar instruments, and are classified within Level 2. Other derivatives are valued utilizing inputs that are not observable for substantially the full term of the contract, or for which the impact of the unobservable period is significant to the fair value of the derivative. Such derivatives are classified within Level 3. See Note 17 for discussion of risk management activities and derivative transactions.

Nuclear decommissioning trust funds reflect the assets of the Utilities' nuclear decommissioning trusts, as discussed in Note 12A. The assets of the trusts are invested primarily in exchange-traded equity securities (classified within Level 1) and marketable debt securities, most of which are valued using Level 1 inputs for similar instruments, and are classified within Level 2.

Other marketable securities primarily represent available-for-sale debt and equity securities used to fund certain employee benefit costs.

We issued Contingent Value Obligations (CVOs) in connection with the acquisition of Florida Progress, as discussed in Note 15. The CVOs are derivatives recorded at fair value based on quoted prices from a less than active market, and are classified as Level 2.

The following tables set forth a reconciliation of changes in the fair value of our and the Utilities' commodity derivatives classified as Level 3 in the fair value hierarchy for the 12 months ended December 31, 2008.

Progress Energy

(in millions)	
Derivatives, net at January 1, 2008	\$26
Total gains (losses), realized and unrealized	
Included in earnings	—
Included in other comprehensive income	—
Deferred as regulatory assets and liabilities, net	(102)
Purchases, issuances and settlements, net	—
Transfers out of Level 3, net	35
Derivatives, net at December 31, 2008	\$(41)

PEC

(in millions)	
Derivatives, net at January 1, 2008	\$6
Total gains (losses), realized and unrealized	
Included in earnings	—
Included in other comprehensive income	—
Deferred as regulatory assets and liabilities, net	(32)
Purchases, issuances and settlements, net	—
Transfers out of Level 3, net	4
Derivatives, net at December 31, 2008	\$(22)

PEF

(in millions)	
Derivatives, net at January 1, 2008	\$20
Total gains (losses), realized and unrealized:	
Included in earnings	—
Included in other comprehensive income	—
Deferred as regulatory assets and liabilities, net	(70)
Purchases, issuances and settlements, net	—
Transfers out of Level 3, net	31
Derivatives, net at December 31, 2008	\$(19)

Substantially all unrealized gains and losses on derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment.

Transfers out of Level 3 represent existing assets or liabilities previously classified as Level 3 for which the lowest significant input became observable during the period.

14. INCOME TAXES

We provide deferred income taxes for temporary differences. These occur when there are differences between book and tax carrying amounts of assets and liabilities. Investment tax credits related to regulated operations have been deferred and are being amortized over the estimated service life of the related properties. To the extent that the establishment of deferred income taxes under SFAS No. 109, "Accounting for Income Taxes" (SFAS No. 109), is different from the recovery of taxes by the Utilities through the ratemaking process, the differences are deferred pursuant to SFAS No. 71. A regulatory asset or liability has been recognized for the impact of tax expenses or benefits that are recovered or refunded in different periods by the Utilities pursuant to rate orders. We accrue for uncertain tax positions when it is determined that it is more likely than not that the benefit will not be sustained on audit by the taxing authority based solely on the technical merits of the associated tax position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount that, in our judgment, is greater than 50 percent likely to be realized.

PROGRESS ENERGY

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2008	2007
Deferred income tax assets		
ARO liability	\$264	\$146
Compensation accruals	100	101
Derivative instruments	286	—
Environmental remediation liability	21	32
Income taxes refundable through future rates	111	324
Pension and other postretirement benefits	544	306
Unbilled revenue	61	59
Other	170	122
Federal income tax credit carry forward	802	836
State net operating loss carry forward (net of federal expense)	64	87
Valuation allowance	(55)	(79)
Total deferred income tax assets	2,368	1,934
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(1,665)	(1,482)
Deferred fuel recovery	(186)	(64)
Deferred nuclear cost recovery	(73)	—
Derivative instruments	—	(59)
Income taxes recoverable through future rates	(959)	(317)
Investments	(6)	(99)
Prepaid pension costs	—	(18)
Other	(62)	(56)
Total deferred income tax liabilities	(2,951)	(2,095)
Total net deferred income tax liabilities	\$(583)	\$(161)

The above amounts were classified on the Consolidated Balance Sheets as follows:

(in millions)	2008	2007
Current deferred income tax assets, included in prepayments and other current assets	\$96	\$45
Noncurrent deferred income tax assets, included in other assets and deferred debits	32	65
Current deferred income tax liabilities, included in other current liabilities	(1)	(5)
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(710)	(266)
Total net deferred income tax liabilities	\$(583)	\$(161)

At December 31, 2008, the federal income tax credit carry forward includes \$802 million of alternative minimum tax credits that do not expire.

At December 31, 2008, we had gross state net operating loss carry forwards of \$1.5 billion that will expire during the period 2009 through 2028.

Valuation allowances have been established due to the uncertainty of realizing certain future state tax benefits. We had a net reduction of \$24 million in our valuation allowances during 2008:

- We increased our valuation allowances by \$12 million during 2008. Additional valuation allowances of \$9 million were recorded related to PVI's 2007 state net operating loss carry forward. Additional valuation allowances of \$3 million were recorded to fully offset state net operating loss and state capital loss carry forwards generated during 2008.
- We reduced our valuation allowances and deferred income tax assets by \$36 million during 2008 due to the ceasing of business operations in various state taxing jurisdictions. The \$36 million of valuation allowances were previously recorded to fully offset \$36 million of state deferred income tax assets related to our terminal, coal mining and synthetic fuel businesses. During 2008, we sold our terminal and remaining coal mining businesses and dissolved our synthetic fuel businesses, which caused us to cease business operations in various state taxing jurisdictions. We believe that we will not realize the deferred income tax assets for those jurisdictions, and accordingly we reduced our total deferred income tax assets and corresponding valuation allowances by \$36 million, which had no net impact on total deferred income tax assets.

We believe it is more likely than not that the results of future operations will generate sufficient taxable income to allow for the utilization of the remaining deferred tax assets.

Reconciliations of our effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2008	2007	2006
Effective income tax rate	33.7%	32.3%	37.5%
State income taxes, net of federal benefit	(3.8)	(2.8)	(3.5)
Investment tax credit amortization	1.0	1.1	1.3
Employee stock ownership plan dividends	1.0	1.1	1.3
Domestic manufacturing deduction	0.3	1.0	0.4
AFUDC equity	2.5	0.7	(0.1)
Other differences, net	0.3	1.6	(1.9)
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense applicable to continuing operations for the years ended December 31 was comprised of:

(in millions)	2008	2007	2006
Current – federal	\$38	\$285	\$394
– state	12	36	70
Deferred – federal	305	13	(94)
– state	49	11	(17)
Investment tax credit	(12)	(12)	(12)
State net operating loss carry forward	(6)	1	(2)
Beginning-of-the-year valuation allowance change	9	–	–
Total income tax expense	\$395	\$334	\$339

We previously recorded a deferred income tax asset for a state net operating loss carry forward upon the sale of PVI's nonregulated generation facilities and energy marketing and trading operations. During 2008, we recorded an additional deferred income tax asset of \$6 million related to the state net operating loss carry forward due to a change in estimate based on 2007 tax return filings. As previously discussed, we also evaluated this state net operating loss carry forward and recorded a partial valuation allowance of \$9 million.

Total income tax expense applicable to continuing operations excluded the following:

- Taxes related to discontinued operations recorded net of tax for 2008, 2007 and 2006, which are presented separately in Notes 3A through 3G.
- Taxes related to other comprehensive income recorded net of tax for 2008, 2007 and 2006, which are presented separately in the Consolidated Statements of Comprehensive Income.
- Current tax benefit of \$6 million, which was recorded in common stock during 2007, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of RSUs, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. Current tax benefit of \$3 million, which was recorded in common stock during 2006, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2008.
- Taxes of \$2 million and \$4 million that reduced retained earnings and increased regulatory assets, respectively, due to the cumulative effect of adopting the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) on January 1, 2007.

At December 31, 2008, our liability for unrecognized tax benefits was \$104 million, and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations was \$8 million. At December 31, 2007, our liability for unrecognized tax benefits was \$93 million, and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income from continuing operations was \$10 million. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2008 and 2007:

(in millions)	2008	2007
Unrecognized tax benefits at beginning of period	\$93	\$126
Gross amounts of increases as a result of tax positions taken in a prior period	17	32
Gross amounts of decreases as a result of tax positions taken in a prior period	(11)	(41)
Gross amounts of increases as a result of tax positions taken in the current period	8	22
Gross amounts of decreases as a result of tax positions taken in the current period	(2)	(32)
Amounts of net increases (decreases) relating to settlements with taxing authorities	1	(14)
Reductions as a result of a lapse of the applicable statute of limitations	(2)	—
Unrecognized tax benefits at end of period	\$104	\$93

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. During 2007, we closed federal tax years 1998 to 2003. Our open federal tax years are from 2004 forward and our open state tax years in our major jurisdictions are generally from 2003 forward. The Internal Revenue Service (IRS) is currently examining our federal tax returns for years 2004 through 2005. We cannot predict when those examinations will be completed. We are not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the 12-month period ending December 31, 2009.

We include interest expense related to unrecognized tax benefits in interest charges and we include penalties in other, net on the Consolidated Statements of Income. During 2008 and 2007, the net interest expense related to unrecognized tax benefits was \$4 million and \$1 million, respectively, of which a respective \$1 million and \$15 million expense component was deferred as a regulatory asset by PEF, which is amortized as a charge to interest expense over a three-year period or less. During 2008, PEF charged the unamortized balance of the regulatory asset to interest expense. During 2008, less than \$1 million was recorded for penalties related to unrecognized tax benefits. During 2007, there were no penalties related to unrecognized tax benefits. At December 31, 2008 and 2007, we had accrued \$27 million and \$23 million, respectively, for interest and penalties, which are included in other liabilities and deferred credits on the Consolidated Balance Sheets.

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2008	2007
Deferred income tax assets		
ARO liability	\$244	\$140
Compensation accruals	52	55
Derivative instruments	64	4
Income taxes refundable through future rates	10	83
Pension and other postretirement benefits	262	166
Unbilled revenue	18	18
Other	38	36
Federal income tax credit carry forward	—	1
Total deferred income tax assets	688	503
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(1,162)	(1,013)
Deferred fuel recovery	(132)	(60)
Income taxes recoverable through future rates	(451)	(218)
Investments	(8)	(74)
Other	(12)	(7)
Total deferred income tax liabilities	(1,765)	(1,372)
Total net deferred income tax liabilities	\$(1,077)	\$(869)

The above amounts were classified on the Consolidated Balance Sheets as follows:

(in millions)	2008	2007
Current deferred income tax assets, included in prepayments and other current assets	\$—	\$26
Current deferred income tax liabilities, included in other current liabilities	(5)	—
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(1,072)	(895)
Total net deferred income tax liabilities	\$(1,077)	\$(869)

Reconciliations of PEC's effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2008	2007	2006
Effective income tax rate	35.8%	37.1%	36.7%
State income taxes, net of federal benefit	(2.7)	(2.3)	(2.3)
Investment tax credit amortization	0.7	0.7	0.8
Domestic manufacturing deduction	0.5	1.1	0.6
Other differences, net	0.7	(1.6)	(0.8)
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense applicable to continuing operations for the years ended December 31 was comprised of:

(in millions)	2008	2007	2006
Current – federal	\$87	\$235	\$285
– state	7	19	39
Deferred – federal	181	34	(42)
– state	29	13	(11)
Investment tax credit	(6)	(6)	(6)
Total income tax expense	\$298	\$295	\$265

Total income tax expense applicable to continuing operations excluded the following:

- Taxes related to other comprehensive income recorded net of tax for 2008, 2007 and 2006, which are presented separately in the Consolidated Statements of Comprehensive Income.
- Current tax benefit of \$3 million, which was recorded in common stock during 2007, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of RSUs, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. Current tax benefit of \$1 million, which was recorded in common stock during 2006, related to excess tax deductions resulting from vesting of restricted stock awards, vesting of stock-settled PSSP awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2008.
- Taxes of \$6 million that reduced retained earnings, due to the cumulative effect of adopting the provisions of FIN 48 on January 1, 2007.

PEC and each of its wholly owned subsidiaries have entered into the Tax Agreement with the Parent (See Note 1D). PEC's intercompany tax receivable was approximately \$74 million at December 31, 2008. PEC's intercompany tax payable was approximately \$27 million at December 31, 2007.

At December 31, 2008, PEC's liability for unrecognized tax benefits was \$38 million, and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$5 million. At December 31, 2007, PEC's liability for unrecognized tax benefits was \$41 million, and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$9 million. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2008 and 2007:

(in millions)	2008	2007
Unrecognized tax benefits at beginning of period	\$41	\$43
Gross amounts of increases as a result of tax positions taken in a prior period	5	3
Gross amounts of decreases as a result of tax positions taken in a prior period	(10)	(15)
Gross amounts of increases as a result of tax positions taken in the current period	4	22
Gross amounts of decreases as a result of tax positions taken in the current period	(1)	(5)
Amounts of net increases (decreases) relating to settlements with taxing authorities	1	(7)
Reductions as a result of a lapse of the applicable statute of limitations	(2)	–
Unrecognized tax benefits at end of period	\$38	\$41

We file consolidated federal and state income tax returns that include PEC. In addition, PEC files stand-alone tax returns in various state jurisdictions. During 2007, we closed federal tax years 1998 to 2003. PEC's open federal tax years are from 2004 forward and PEC's open state tax years in our major jurisdictions are generally from 2003 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEC cannot predict when those examinations will be completed. PEC is not aware of any tax positions for which it is reasonably

possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the 12-month period ending December 31, 2009.

PEC includes interest expense related to unrecognized tax benefits in interest charges and includes penalties in other, net on the Consolidated Statements of Income. During 2008 and 2007, the interest benefit recorded related to unrecognized tax benefits was \$1 million and \$4 million, respectively, and there were no penalties recorded related to unrecognized tax benefits. At December 31, 2008 and 2007, PEC had accrued \$7 million and \$8 million, respectively, for interest and penalties, which is included in other liabilities and deferred credits on the Consolidated Balance Sheets.

PEF

Accumulated deferred income tax assets (liabilities) at December 31 were:

(in millions)	2008	2007
Deferred income tax assets		
Compensation accruals	\$23	\$21
Derivative instruments	222	—
Environmental remediation liability	14	18
Income taxes refundable through future rates	54	190
Pension and other postretirement benefits	192	142
Reserve for storm damage	54	25
Unbilled revenue	43	41
Other	64	56
Total deferred income tax assets	666	493
Deferred income tax liabilities		
Accumulated depreciation and property cost differences	(490)	(451)
Deferred fuel recovery	(54)	(4)
Deferred nuclear cost recovery	(73)	—
Derivative instruments	—	(64)
Income taxes recoverable through future rates	(508)	(99)
Investments	(3)	(63)
Prepaid pension costs	—	(86)
Other	(36)	(33)
Total deferred income tax liabilities	(1,164)	(800)
Total net deferred income tax liabilities	\$(498)	\$(307)

The above amounts were classified on the Balance Sheets as follows:

(in millions)	2008	2007
Current deferred income tax assets, included in prepayments and other current assets	\$74	\$39
Noncurrent deferred income tax liabilities, included in noncurrent income tax liabilities	(572)	(346)
Total net deferred income tax liabilities	\$(498)	\$(307)

Reconciliations of PEF's effective income tax rate to the statutory federal income tax rate for the years ended December 31 follow:

	2008	2007	2006
Effective income tax rate	32.0%	31.2%	37.0%
State income taxes, net of federal benefit	(3.1)	(3.3)	(3.6)
Investment tax credit amortization	1.1	1.3	1.2
Domestic manufacturing deduction	0.2	0.8	0.3
AFUDC equity	5.4	2.6	0.7
Other differences, net	(0.6)	2.4	(0.6)
Statutory federal income tax rate	35.0%	35.0%	35.0%

Income tax expense applicable to continuing operations for the years ended December 31 was comprised of:

(in millions)	2008	2007	2006
Current – federal	\$39	\$160	\$207
– state	12	28	34
Deferred – federal	121	(33)	(36)
– state	15	(5)	(6)
Investment tax credit	(6)	(6)	(6)
Total income tax expense	\$181	\$144	\$193

Total income tax expense applicable to continuing operations excluded the following:

- Taxes related to other comprehensive income recorded net of tax for 2008, 2007 and 2006, which are presented separately in the Statements of Comprehensive Income.
- Less than \$1 million of current tax benefit, which was recorded in common stock during 2007 and 2006, related to excess tax deductions resulting from vesting of restricted stock awards and exercises of nonqualified stock options pursuant to the terms of our EIP. No net current tax benefit was recorded in common stock during 2008.
- Taxes of less than \$1 million and \$4 million that reduced retained earnings and increased regulatory assets, respectively, due to the cumulative effect of adopting the provisions of FIN 48 on January 1, 2007.

PEF has entered into the Tax Agreement with the Parent (See Note 1D). PEF's intercompany tax receivable was approximately \$47 million and \$41 million at December 31, 2008 and 2007, respectively.

At December 31, 2008, PEF's liability for unrecognized tax benefits was \$62 million and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$2 million. At December 31, 2007, PEF's liability for unrecognized tax benefits was \$55 million, and the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$3 million. The following table presents the changes to unrecognized tax benefits during the years ended December 31, 2008 and 2007:

(in millions)	2008	2007
Unrecognized tax benefits at beginning of period	\$55	\$72
Gross amounts of increases as a result of tax positions taken in a prior period	6	23
Gross amounts of decreases as a result of tax positions taken in a prior period	(1)	(4)
Gross amounts of increases as a result of tax positions taken in the current period	3	2
Gross amounts of decreases as a result of tax positions taken in the current period	(1)	(25)
Amounts of decreases relating to settlements with taxing authorities	—	(13)
Reductions as a result of a lapse of the applicable statute of limitations	—	—
Unrecognized tax benefits at end of period	\$62	\$55

We file consolidated federal and state income tax returns that include PEF. During 2007, we closed federal tax years 1998 to 2003. PEF's open federal tax years are from 2004 forward and PEF's open state tax years are generally from 2003 forward. The IRS is currently examining our federal tax returns for years 2004 through 2005. PEF cannot predict when those examinations will be completed. PEF is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease during the 12-month period ending December 31, 2009.

Pursuant to a regulatory order, PEF records interest expense related to unrecognized tax benefits as a regulatory asset, which is amortized over a three-year period or less, with the amortization included in interest charges on the Statements of Income. During 2008, PEF charged the unamortized balance of the regulatory asset to interest expense on the Statement of Income. Penalties are included in other, net on the Statements of Income. During 2008 and 2007, interest expense recorded as a regulatory asset was \$1 million and \$15 million, respectively, and there were no penalties recorded related to unrecognized tax benefits. At December 31, 2008 and 2007, PEF had accrued \$19 million and \$18 million, respectively, for interest and penalties, which is included in other liabilities and deferred credits on the Balance Sheets.

15. CONTINGENT VALUE OBLIGATIONS

In connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million CVOs. Each CVO represents the right of the holder to receive contingent payments based on the performance of four coal-based solid synthetic fuels limited liability companies, of which three were wholly owned (Earthco), purchased by subsidiaries of Florida Progress in October 1999. All of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007 (See Note 3A). The payments are based on the net after-tax cash flows the facilities generate. We will make deposits into a CVO trust for estimated contingent payments due to CVO holders based on the results of operations and the utilization of tax credits. Monies held in the trust are generally not payable to the CVO holders until the completion of income tax audits. The CVOs are derivatives and are recorded at fair value. The unrealized loss/gain recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income (See Note 20). At December 31, 2008 and 2007, the CVO liability included in other liabilities and deferred credits on our Consolidated Balance Sheets was \$34 million.

During the year ended December 31, 2008, a \$6 million deposit was made into the CVO trust for the CVO holders' share of the disposition proceeds from the sale of one of the Earthco synthetic fuel facilities (See Note 3J). Disposition proceeds payments will not generally be made to CVO holders until the termination of all indemnity obligations under the purchase and sale agreement related to the disposition. During 2007, a \$5 million deposit was made into a CVO trust for the net after-tax cash flows generated by the four Earthco synthetic fuels facilities in 2004. Deposits into the trust will be classified as a restricted cash asset until the applicable tax years are closed, at

which time a payment will be disbursed to the CVO holders. Future payments will include principal and interest earned during the investment period net of expenses deducted. The interest earned on the payments held in trust for 2008 and 2007 was insignificant. The asset is included in other assets and deferred debits on the Consolidated Balance Sheet at December 31, 2008.

16. BENEFIT PLANS

A. POSTRETIREMENT BENEFITS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria. We use a measurement date of December 31 for our pension and OPEB plans.

COSTS OF BENEFIT PLANS

Prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants. Actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

To determine the market-related value of assets, we use a five-year averaging method for a portion of the pension assets and fair value for the remaining portion. We have historically used the five-year averaging method. When we acquired Florida Progress in 2000, we retained the Florida Progress historical use of fair value to determine market-related value for Florida Progress pension assets.

The components of the net periodic benefit cost for the years ended December 31 were:

<i>Progress Energy</i>						
	Pension Benefits			Other Postretirement Benefits		
(in millions)	2008	2007	2006	2008	2007	2006
Service cost	\$46	\$46	\$45	\$8	\$7	\$9
Interest cost	128	123	117	34	32	33
Expected return on plan assets	(170)	(155)	(148)	(6)	(6)	(6)
Amortization of actuarial loss ^(a)	8	15	18	1	2	4
Other amortization, net ^(a)	2	2	—	5	5	5
Net periodic cost	\$14	\$31	\$32	\$42	\$40	\$45

^(a) Adjusted to reflect PEF's rate treatment (See Note 16B).

We and the Utilities adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS No. 158), as of December 31, 2006. SFAS No. 158 amended prior accounting requirements for pension and OPEB plans. Prior to the implementation of SFAS No. 158, other comprehensive income (OCI) reflected minimum pension adjustments related to our pension plans. Our pre-tax minimum pension adjustment recognized as a component of OCI was a net actuarial gain of \$78 million for the year ended December 31, 2006. No amounts related to our OPEB plans were recognized as a component of OCI for the year ended December 31, 2006. The tables below provide a summary of amounts recognized in other comprehensive income for 2008 and 2007 and other comprehensive income reclassification adjustments for amounts included in net income for 2008 and 2007. The tables also include comparable items that affected regulatory assets of PEC and PEF. Refer to the PEC and PEF sections below for more information with regard to these regulatory assets.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Other comprehensive income (loss)				
Recognized for the year				
Net actuarial loss	\$(64)	\$24	\$(8)	\$16
Other, net	(6)	(1)	—	—
Reclassification adjustments				
Net actuarial loss	1	2	—	—
Other, net	1	1	—	—
Regulatory asset (increase) decrease				
Recognized for the year				
Net actuarial (loss) gain	(735)	66	(73)	82
Other, net	(36)	(8)	—	—
Amortized to income				
Net actuarial loss	7	13	1	2
Other, net	1	1	5	4

PEC

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Service cost	\$23	\$23	\$22	\$5	\$5	\$4
Interest cost	58	56	52	17	15	17
Expected return on plan assets	(66)	(60)	(59)	(4)	(4)	(4)
Amortization of actuarial loss	6	12	11	—	—	2
Other amortization, net	2	2	1	1	1	1
Net periodic cost	\$23	\$33	\$27	\$19	\$17	\$20

No amounts related to PEC's OPEB plans were recognized as a component of OCI for the year ended December 31, 2006. PEC's pre-tax minimum pension adjustment recognized as a component of OCI for the year ended December 31, 2006, was a net actuarial gain of \$59 million. In conjunction with the implementation of SFAS No. 158, amounts that would otherwise be recorded in OCI are recorded as adjustments to regulatory assets consistent with the recovery of the related costs through the ratemaking process. The tables below provide a summary of amounts recognized in regulatory assets for 2008 and 2007 and amounts amortized from regulatory assets to net income for 2008 and 2007.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Regulatory asset (increase) decrease				
Recognized for the year				
Net actuarial (loss) gain	\$(308)	\$26	\$(66)	\$82
Other, net	(31)	(6)	—	—
Amortized to net income				
Net actuarial loss	6	12	—	—
Other, net	2	2	1	1

PEF

(in millions)	Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Service cost	\$17	\$16	\$16	\$2	\$2	\$3
Interest cost	53	52	49	14	14	14
Expected return on plan assets	(90)	(84)	(78)	(1)	(1)	(1)
Amortization of actuarial loss	1	1	3	1	2	1
Other amortization, net	(1)	(1)	(1)	3	3	4
Net periodic (benefit) cost	\$(20)	\$(16)	\$(11)	\$19	\$20	\$21

No amounts related to PEF's OPEB or pension plans were recorded as a component of OCI for the years ended December 31, 2008, 2007 and 2006. Amounts that would otherwise be recorded in OCI are recorded as adjustments to regulatory assets consistent with the recovery of the related costs through the ratemaking process. The tables below provides a summary of amounts recognized in regulatory assets for 2008 and 2007 and amounts amortized from regulatory assets to net income for 2008 and 2007.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Regulatory asset (increase) decrease				
Recognized for the year				
Net actuarial (loss) gain	\$(427)	\$40	\$(6)	\$—
Other, net	(5)	(1)	—	—
Amortized to net income				
Net actuarial loss	1	1	1	2
Other, net	(1)	(1)	3	3

The following weighted-average actuarial assumptions were used by Progress Energy in the calculation of its net periodic cost:

	Pension Benefits			Other Postretirement Benefits		
	2008	2007	2006	2008	2007	2006
Discount rate	6.20%	5.95%	5.65%	6.20%	5.95%	5.65%
Rate of increase in future compensation						
Bargaining	4.25%	4.25%	3.50%	—	—	—
Supplementary plans	5.25%	5.25%	5.25%	—	—	—
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%	8.10%	7.70%	8.30%

The weighted-average actuarial assumptions used by PEC and PEF were not materially different from the assumptions above, as applicable, except that the expected long-term rate of return on OPEB plan assets was 9.00% for PEC and 5.00% for PEF, for all years presented.

The expected long-term rates of return on plan assets were determined by considering long-term historical returns for the plans and long-term projected returns based on the plans' target asset allocation. For all pension plan assets and a substantial portion of OPEB plan assets, those benchmarks support an expected long-term rate of return between 9.0% and 9.5%. The Progress Registrants used an expected long-term rate of 9.0%, the low end of the range, for 2008, 2007 and 2006.

BENEFIT OBLIGATIONS AND ACCRUED COSTS

SFAS No. 158 requires us to recognize in our statement of financial condition the funded status of our pension and other postretirement benefit plans, measured as the difference between the fair value of the plan assets and the benefit obligation as of the end of the fiscal year.

Reconciliations of the changes in the Progress Registrants' benefit obligations and the funded status as of December 31, 2008 and 2007 are presented in the tables below, with each table followed by related supplementary information.

Progress Energy

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Projected benefit obligation at January 1	\$2,142	\$2,123	\$541	\$628
Service cost	46	46	8	7
Interest cost	128	123	34	32
Benefit payments	(127)	(131)	(35)	(30)
Plan amendment	42	8	—	—
Actuarial loss (gain)	3	(27)	60	(96)
Obligation at December 31	2,234	2,142	608	541
Fair value of plan assets at December 31	1,285	1,996	52	75
Funded status	\$(949)	\$(146)	\$(556)	\$(466)

The defined benefit pension plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations totaling \$2.234 billion and \$463 million at December 31, 2008 and 2007, respectively. Those plans had accumulated benefit obligations totaling \$2.196 billion and \$422 million at December 31, 2008 and 2007, respectively, and plan assets of \$1.285 billion and \$269 million at December 31, 2008 and 2007, respectively. The total accumulated benefit obligation for pension plans was \$2.196 billion and \$2.100 billion at December 31, 2008 and 2007, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Noncurrent assets	\$–	\$48	\$–	\$–
Current liabilities	(10)	(10)	(1)	–
Noncurrent liabilities	(939)	(184)	(555)	(466)
Funded status	\$(949)	\$(146)	\$(556)	\$(466)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Recognized in accumulated other comprehensive loss				
Net actuarial loss (gain)	\$87	\$22	\$–	\$(9)
Other, net	11	6	–	1
Recognized in regulatory assets, net				
Net actuarial loss	865	136	97	25
Other, net	62	28	18	23
Total not yet recognized as a component of net periodic cost ^(a)	\$1,025	\$192	\$115	\$40

^(a) All components are adjusted to reflect PEF's rate treatment (See Note 16B).

The following table presents the amounts we expect to recognize as components of net periodic cost in 2009.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss ^(a)	\$48	\$4
Amortization of other, net ^(a)	6	5

^(a) Adjusted to reflect PEF's rate treatment (See Note 16B).

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Projected benefit obligation at January 1	\$980	\$952	\$257	\$330
Service cost	23	23	5	5
Interest cost	58	56	17	15
Plan amendment	31	6	–	–
Benefit payments	(55)	(60)	(15)	(12)
Actuarial (gain) loss	(12)	3	48	(81)
Obligation at December 31	1,025	980	312	257
Fair value of plan assets at December 31	521	805	22	44
Funded status	\$(504)	\$(175)	\$(290)	\$(213)

All defined benefit pension plans had accumulated benefit obligations in excess of plan assets, with projected benefit obligations totaling \$1.025 billion and \$980 million at December 31, 2008 and 2007, respectively. Those plans had accumulated benefit obligations totaling \$1.021 billion and \$974 million at December 31, 2008 and 2007, respectively, and plan assets of \$521 million and \$805 million at December 31, 2008 and 2007, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Current liabilities	\$(2)	\$(2)	\$ –	\$ –
Noncurrent liabilities	(502)	(173)	(290)	(213)
Funded status	\$(504)	\$(175)	\$(290)	\$(213)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Recognized in regulatory assets				
Net actuarial loss (gain)	\$407	\$104	\$54	\$(12)
Other, net	57	29	4	5
Total not yet recognized as a component of net periodic cost	\$464	\$133	\$58	\$(7)

The following table presents the amounts PEC expects to recognize as components of net periodic cost in 2009.

(in millions)	Pension Benefits	Other Postretirement Benefits
Amortization of actuarial loss	\$8	\$3
Amortization of other, net	5	1

PEF

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Projected benefit obligation at January 1	\$881	\$880	\$245	\$246
Service cost	17	16	2	2
Interest cost	53	52	14	14
Plan amendment	5	1	–	–
Benefit payments	(58)	(57)	(18)	(16)
Actuarial loss (gain)	16	(11)	5	(1)
Obligation at December 31	914	881	248	245
Fair value of plan assets at December 31	650	1,026	27	26
Funded status	\$(264)	\$145	\$(221)	\$(219)

The defined benefit pension plans with accumulated benefit obligations in excess of plan assets had projected benefit obligations totaling \$914 million and \$345 million at December 31, 2008 and 2007, respectively. Those plans had accumulated benefit obligations totaling \$884 million and \$313 million at December 31, 2008 and 2007, respectively, and plan assets of \$650 million and \$269 million at December 31, 2008 and 2007, respectively. The total accumulated benefit obligation for pension plans was \$884 million and \$849 million at December 31, 2008 and 2007, respectively.

The accrued benefit costs reflected in the Consolidated Balance Sheets at December 31 were as follows:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Noncurrent assets	\$—	\$221	\$—	\$—
Current liabilities	(3)	(3)	—	—
Noncurrent liabilities	(261)	(73)	(221)	(219)
Funded status	\$(264)	\$145	\$(221)	\$(219)

The table below provides a summary of amounts not yet recognized as a component of net periodic cost, as of December 31.

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Recognized in regulatory assets, net				
Net actuarial loss	\$458	\$32	\$43	\$37
Other, net	5	(1)	14	18
Total not yet recognized as a component of net periodic cost	\$463	\$31	\$57	\$55

The following table presents the amounts PEF expects to recognize as components of net periodic cost in 2009.

(in millions)	Pension	Other
	Benefits	Postretirement Benefits
Amortization of actuarial loss	\$36	\$2
Amortization of other, net	—	4

The following weighted-average actuarial assumptions were used in the calculation of our year-end obligations:

	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Discount rate	6.30%	6.20%	6.20%	6.20%
Rate of increase in future compensation				
Bargaining	4.25%	4.25%	—	—
Supplementary plans	5.25%	5.25%	—	—
Initial medical cost trend rate for pre-Medicare Act benefits	—	—	9.00%	9.00%
Initial medical cost trend rate for post-Medicare Act benefits	—	—	9.00%	9.00%
Ultimate medical cost trend rate	—	—	5.00%	5.00%
Year ultimate medical cost trend rate is achieved	—	—	2016	2015

The weighted-average actuarial assumptions for PEC and PEF were the same or were not significantly different from those indicated above, as applicable. The rates of increase in future compensation include the effects of cost of living adjustments and promotions.

Our primary defined benefit retirement plan for nonbargaining employees is a “cash balance” pension plan as defined in EITF Issue No. 03-4, “Determining the Classification and Benefit Attribution Method for a ‘Cash Balance’ Pension Plan.” Therefore, effective December 31, 2003, we began to use the traditional unit credit method for purposes of measuring the benefit obligation of this plan. Under the traditional unit credit method, no assumptions are included about future changes in compensation, and the accumulated benefit obligation and projected benefit obligation are the same.

MEDICAL COST TREND RATE SENSITIVITY

The medical cost trend rates were assumed to decrease gradually from the initial rates to the ultimate rates. The effects of a 1 percent change in the medical cost trend rate are shown below.

(in millions)	Progress Energy	PEC	PEF
1 percent increase in medical cost trend rate			
Effect on total of service and interest cost	\$3	\$2	\$1
Effect on postretirement benefit obligation	37	19	15
1 percent decrease in medical cost trend rate			
Effect on total of service and interest cost	(2)	(1)	(1)
Effect on postretirement benefit obligation	(30)	(16)	(12)

ASSETS OF BENEFIT PLANS

In the plan asset reconciliation tables that follow, our, PEC's and PEF's employer contributions for 2008 include contributions directly to pension plan assets of \$33 million, \$24 million and less than \$1 million, respectively, and for 2007 include contributions directly to pension plan assets of \$63 million, \$33 million and \$15 million, respectively. Substantially all of the remaining employer contributions represent benefit payments made directly from the Progress Registrants' assets. The OPEB benefit payments presented in the plan asset reconciliation tables that follow represent the cost after participant contributions. Participant contributions represent approximately 20 percent of gross benefit payments for Progress Energy, 25 percent for PEC and 15 percent for PEF. The OPEB benefit payments are also reduced by prescription drug-related federal subsidies received. In 2008 and 2007, the subsidies totaled \$3 million for us, \$1 million for PEC and \$2 million for PEF.

Reconciliations of the fair value of plan assets at December 31 follow:

Progress Energy

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Fair value of plan assets at January 1	\$1,996	\$1,836	\$75	\$74
Actual return on plan assets	(627)	219	(16)	7
Benefit payments	(127)	(131)	(35)	(30)
Employer contributions	43	72	28	24
Fair value of plan assets at December 31	\$1,285	\$1,996	\$52	\$75

PEC

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Fair value of plan assets at January 1	\$805	\$741	\$44	\$45
Actual return on plan assets	(255)	89	(14)	5
Benefit payments	(55)	(60)	(15)	(12)
Employer contributions	26	35	7	6
Fair value of plan assets at December 31	\$521	\$805	\$22	\$44

PEF

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2008	2007	2008	2007
Fair value of plan assets at January 1	\$1,026	\$952	\$26	\$24
Actual return on plan assets	(321)	113	—	1
Benefit payments	(58)	(57)	(18)	(16)
Employer contributions	3	18	19	17
Fair value of plan assets at December 31	\$650	\$1,026	\$27	\$26

The asset allocation for the benefit plans at the end of 2008 and 2007 and the target allocation for the plans, by asset category, are presented in the following tables. The pension benefit plan allocations and targets are consistent for all Progress Registrants.

Asset Category	Pension Benefits		
	Target	Percentage of Plan Assets	
	Allocations	at Year End	
	2009	2008	2007
Equity – domestic	40%	39%	42%
Equity – international	20%	20%	25%
Debt – domestic	10%	10%	11%
Debt – international	15%	16%	12%
Other	15%	15%	10%
Total	100%	100%	100%

<i>Progress Energy</i> Asset Category	Other Postretirement Benefits		
	Target	Percentage of Plan Assets	
	Allocations	at Year End	
	2009	2008	2007
Equity – domestic	20%	18%	28%
Equity – international	10%	10%	16%
Debt – domestic	50%	57%	41%
Debt – international	10%	8%	8%
Other	10%	7%	7%
Total	100%	100%	100%

<i>PEC</i> Asset Category	Target	Percentage of Plan Assets	
	Allocations	at Year End	
	2009	2008	2007
Equity – domestic	40%	39%	42%
Equity – international	20%	20%	25%
Debt – domestic	10%	10%	11%
Debt – international	15%	16%	12%
Other	15%	15%	10%
Total	100%	100%	100%

<i>PEF</i> Asset Category	Target	Percentage of Plan Assets	
	Allocations	at Year End	
	2009	2008	2007
Debt – domestic	100%	100%	100%

For pension plan assets and a substantial portion of OPEB plan assets, the Progress Registrants set target allocations among asset classes to provide broad diversification to protect against large investment losses and excessive volatility, while recognizing the importance of offsetting the impacts of benefit cost escalation. In addition, external investment managers who have complementary investment philosophies and approaches are employed to manage the assets. Tactical shifts (plus or minus 5 percent) in asset allocation from the target allocations are made based on the near-term view of the risk and return tradeoffs of the asset classes.

In 2009, we expect to make at least \$130 million of contributions directly to pension plan assets and \$1 million of discretionary contributions directly to the OPEB plan assets. The expected benefit payments for the pension benefit plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$154, \$157, \$158, \$167, \$169 and \$923, respectively. The expected benefit payments for the OPEB plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$40, \$43, \$45, \$48, \$50 and \$268, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from our assets. The benefit payment amounts reflect our net cost after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$4, \$4, \$5, \$5, \$6 and \$40, respectively.

In 2009, PEC expects to make at least \$75 million in contributions directly to pension plan assets. The expected benefit payments for the pension benefit plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$78, \$79, \$79, \$83, \$82 and \$445, respectively. The expected benefit payments for the OPEB plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$17, \$19, \$21, \$23, \$24, and \$139, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEC assets. The benefit payment amounts reflect the net cost to PEC after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$2, \$2, \$2, \$3, \$3 and \$21, respectively.

In 2009, PEF expects to make at least \$55 million in contributions directly to pension plan assets and expects to make \$1 million of discretionary contributions to OPEB plan assets. The expected benefit payments for the pension benefit plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$58, \$59, \$60, \$62, \$63 and \$354, respectively. The expected benefit payments for the OPEB plan for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$20, \$21, \$21, \$22, \$22 and \$109, respectively. The expected benefit payments include benefit payments directly from plan assets and benefit payments directly from PEF's assets. The benefit payment amounts reflect the net cost to PEF after any participant contributions and do not reflect reductions for expected prescription drug-related federal subsidies. The expected federal subsidies for 2009 through 2013 and in total for 2014 through 2018, in millions, are approximately \$2, \$2, \$2, \$2, \$3 and \$16, respectively.

B. FLORIDA PROGRESS ACQUISITION

During 2000, we completed our acquisition of Florida Progress. Florida Progress' pension and OPEB liabilities, assets and net periodic costs are reflected in the above information as appropriate. Certain of Florida Progress' nonbargaining unit benefit plans were merged with our benefit plans effective January 1, 2002.

PEF continues to recover qualified plan pension costs and OPEB costs in rates as if the acquisition had not occurred. The information presented in Note 16A is adjusted as appropriate to reflect PEF's rate treatment.

17. RISK MANAGEMENT ACTIVITIES AND DERIVATIVES TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

As discussed in Note 15, in connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million CVOs. The CVOs are derivatives and are recorded at fair value. The unrealized loss/gain recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income (See Note 20). At December 31, 2008 and 2007, the CVO liability included in other liabilities and deferred credits on our Consolidated Balance Sheets was \$34 million.

A. COMMODITY DERIVATIVES

GENERAL

Most of our physical commodity contracts are not derivatives or qualify as normal purchases or sales pursuant to SFAS No. 133. Therefore, such contracts are not recorded at fair value.

In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the provisions of FASB Derivatives Implementation Group Issue C20, "Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding Contracts with a Price Adjustment Feature" (DIG Issue C20). The related liability is being amortized to earnings over the term of the related contract (See Note 20). At December 31, 2008 and 2007, the remaining liability was \$7 million and \$10 million, respectively.

DISCONTINUED OPERATIONS

As discussed in Note 3C, in 2007 our subsidiary, PVI, sold or assigned substantially all of its CCO physical and commercial assets and liabilities representing substantially all of our nonregulated energy marketing and trading operations. For the year ended December 31, 2007, \$88 million of after-tax gains from derivative instruments related to our nonregulated energy marketing and trading operations were included in discontinued operations on the Consolidated Statements of Income.

On January 8, 2007, we entered into derivative contracts to hedge economically a portion of our 2007 synthetic fuels cash flow exposure to the risk of rising oil prices over an average annual oil price range of \$63 to \$77 per barrel on a New York Mercantile Exchange basis. The notional quantity of these oil price hedge instruments was 25 million barrels and provided protection for the equivalent of approximately 8 million tons of 2007 synthetic fuels production. The cost of the hedges was approximately \$65 million. The contracts were marked-to-market with changes in fair value recorded through earnings. These contracts ended on December 31, 2007, and were settled for cash on January 8, 2008, with no material impact to 2008 earnings. Approximately 34 percent of the notional quantity of these contracts was entered into by Ceredo. As discussed in Note 3J, we disposed of our 100 percent ownership interest in Ceredo on March 30, 2007. Progress Energy is the primary beneficiary of, and continues to consolidate Ceredo in accordance with FIN 46R, but we have recorded a 100 percent minority interest. Consequently, subsequent to the disposal there is no net earnings impact for the portion of the contracts entered into by Ceredo. At December 31, 2007, the fair value of all of these contracts was recorded as a \$234 million short-term derivative asset position, including \$79 million at Ceredo. The fair value of these contracts was included in receivables, net on the Consolidated Balance Sheet (See Note 5). We had a \$108 million cash collateral liability related to these contracts at December 31, 2007, included in other current liabilities on the Consolidated Balance Sheet. As discussed in Note 3A, on October 12, 2007, we permanently ceased production of synthetic fuels at our majority-owned facilities. Because we have abandoned our majority-owned facilities and our other synthetic fuels operations ceased as of December 31, 2007, gains and losses on these contracts were included in discontinued operations, net of tax on the Consolidated Statement of Income in 2007. During the year ended December 31, 2007, we recorded net pre-tax gains of \$168 million related to these contracts. Of this amount, \$57 million was attributable to Ceredo of which \$42 million was attributed to minority interest for the portion of the gain subsequent to the disposal of Ceredo.

Due to the divestitures of Gas and CCO, management determined that it was no longer probable that the forecasted transactions underlying certain derivative contracts would be fulfilled and cash flow hedge accounting for the contracts was discontinued in 2006. For the year ended December 31, 2006, discontinued operations, net of tax on the Consolidated Statements of Income included \$74 million in after-tax deferred income, which was reclassified to earnings due to discontinuance of the related cash flow hedges, and immaterial net gains and losses from other derivative instruments related to Gas and CCO.

Derivative products, primarily natural gas and oil contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions. Certain of our hedge agreements may result in the receipt of, or posting of, derivative collateral with our counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to our return of collateral received and/or our posting of collateral with our counterparties negatively impact our liquidity. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

The Utilities have derivative instruments related to their exposure to price fluctuations on fuel oil and natural gas purchases. Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets, respectively, on the Balance Sheets until the contracts are settled (See Note 7A). After settlement of the derivatives and the fuel is consumed, any realized gains or losses are passed through the fuel cost-recovery clause. During the years ended December 31, 2008 and 2007, PEC recorded a net realized gain of \$2 million and a net realized loss of \$9 million, respectively. PEC's net realized loss was not material during the year ended December 31, 2006. During the years ended December 31, 2008, 2007 and 2006, PEF recorded a net realized gain of \$172 million, a net realized loss of \$46 million and a net realized gain of \$39 million, respectively.

At December 31, 2008, the fair value of PEC's commodity derivative instruments was recorded as a \$45 million short-term derivative liability position included in derivative liabilities and a \$54 million long-term derivative liability position included in other liabilities and deferred credits on the PEC Consolidated Balance Sheet. At December 31, 2007, the fair value of such instruments was recorded as a \$19 million long-term derivative asset position included in other assets and deferred debits and a \$4 million short-term derivative liability position included in derivative liabilities on the PEC Consolidated Balance Sheet. Certain counterparties have held cash collateral with PEC in support of these instruments. PEC had an \$18 million cash collateral asset included in prepayments and other current assets on the PEC Consolidated Balance Sheet at December 31, 2008, and no cash collateral position at December 31, 2007.

At December 31, 2008, the fair value of PEF's commodity derivative instruments was recorded as a \$9 million short-term derivative asset position included in current derivative assets, a \$1 million long-term derivative asset position included in derivative assets, a \$380 million short-term derivative liability position included in current derivative liabilities, and a \$209 million long-term derivative liability position included in derivative liabilities on the PEF Balance Sheet. At December 31, 2007, the fair value of such instruments was recorded as an \$83 million short-term derivative asset position included in current derivative assets, a \$100 million long-term derivative asset position included in derivative assets, a \$38 million short-term derivative liability position included in current derivative liabilities, and a \$9 million long-term derivative liability position included in derivative liabilities on the PEF Balance Sheet. Certain counterparties have posted or held cash collateral in support of these instruments. PEF had a \$335 million cash collateral asset included in derivative collateral posted and a \$12 million cash collateral liability included in other current liabilities on the PEF Balance Sheet at December 31, 2008, and no cash collateral position at December 31, 2007.

CASH FLOW HEDGES

The Utilities designate a portion of commodity derivative instruments as cash flow hedges under SFAS No. 133. The objective for holding some of these instruments is to hedge exposure to market risk associated with fluctuations in the price of power for our forecasted sales. Realized gains and losses are recorded net in operating revenues. We also hedge exposure to market risk associated with fluctuations in the price of fuel for fleet vehicles. Realized gains and losses are recorded net as part of fleet vehicle costs. At December 31, 2008 and 2007, neither we nor the Utilities had material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for 2008, 2007 and 2006.

At December 31, 2008 and 2007, the amount recorded in our or the Utilities' accumulated other comprehensive income related to commodity cash flow hedges was not material.

B. INTEREST RATE DERIVATIVES – FAIR VALUE OR CASH FLOW HEDGES

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by the counterparty, the exposure in these transactions is the cost of replacing the agreements at current market rates.

CASH FLOW HEDGES

The fair values of open interest rate cash flow hedges at December 31 were as follows:

(in millions)	Progress Energy		PEC		PEF	
	2008	2007	2008	2007	2008	2007
Fair value of liabilities	\$(65)	\$(12)	\$(35)	\$(12)	\$–	\$–

The effective portion of gains and losses from interest rate cash flow hedges, including terminated hedges, is recorded in accumulated other comprehensive income, and amortized to net interest charges as the hedged transactions occur. The ineffective portion of interest rate cash flow hedges was not material to our or the Utilities' results of operations for 2008, 2007 and 2006.

The following table presents selected information related to interest rate cash flow hedges included in accumulated other comprehensive income at December 31, 2008:

(term in years/millions of dollars)	Progress Energy	PEC	PEF
Maximum term	Less than 1	Less than 1	–
Accumulated other comprehensive loss, net of tax ^(a)	\$(56)	\$(35)	\$–
Portion expected to be reclassified to earnings during the next 12 months ^(b)	\$(3)	\$(2)	\$–

^(a) Includes amounts related to terminated hedges.

^(b) Actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates.

At December 31, 2007, including amounts related to terminated hedges, we had \$24 million of after-tax deferred losses, including \$12 million of after-tax deferred losses at PEC and \$8 million of after-tax deferred losses at PEF, recorded in accumulated other comprehensive income related to interest rate cash flow hedges.

At December 31, 2008, the Parent had \$200 million notional of interest rate cash flow hedges. During 2008, the Parent entered into a combined \$200 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances. In January 2009, the Parent entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances.

At December 31, 2008 and 2007, PEC had \$250 million notional and \$200 million notional, respectively, of interest rate cash flow hedges. In March 2008, all of PEC's 2007 forward starting swaps were terminated in conjunction with PEC's issuance of \$325 million of First Mortgage Bonds, 6.30% Series due 2038. During 2008, PEC entered into a combined \$250 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances. All of PEC's 2008 forward starting swaps were terminated on January 12, 2009, in conjunction with PEC's issuance of \$600 million of First Mortgage Bonds, 5.30% Series due 2019. After the January 2009 debt issuance, PEC entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances.

At December 31, 2008 and 2007, PEF had no outstanding interest rate cash flow hedge positions. During 2008, PEF entered into a combined \$550 million notional of forward starting swaps to mitigate exposure to interest rate risk in

anticipation of future debt issuances. In June 2008, all of PEF's forward starting swaps were terminated in conjunction with PEF's issuance of \$500 million of First Mortgage Bonds, 5.65% Series due 2018 and \$1.000 billion of First Mortgage Bonds, 6.40% Series due 2038. In January 2009, PEF entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At December 31, 2008 and 2007, neither we nor the Utilities had any outstanding positions in such contracts.

18. RELATED PARTY TRANSACTIONS

As a part of normal business, we enter into various agreements providing financial or performance assurances to third parties. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. Our guarantees include performance obligations under power supply agreements, transmission agreements, gas agreements, fuel procurement agreements and trading operations. Our guarantees also include standby letters of credit and surety bonds. At December 31, 2008, the Parent had issued \$386 million of guarantees for future financial or performance assurance on behalf of its subsidiaries. This includes \$300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23). We do not believe conditions are likely for significant performance under the guarantees of performance issued by or on behalf of affiliates. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the Consolidated Balance Sheet.

Our subsidiaries provide and receive services, at cost, to and from the Parent and its subsidiaries, in accordance with agreements approved by the SEC pursuant to Section 13(b) of the Public Utility Holding Company Act of 1935 (PUHCA 1935). The repeal of PUHCA 1935 effective February 8, 2006, and subsequent regulation by the FERC did not change our current intercompany services. Services include purchasing, human resources, accounting, legal, transmission and delivery support, engineering materials, contract support, loaned employees payroll costs, construction management and other centralized administrative, management and support services. The costs of the services are billed on a direct-charge basis, whenever possible, and on allocation factors for general costs that cannot be directly attributed. Billings from affiliates are capitalized or expensed depending on the nature of the services rendered. Amounts receivable from and/or payable to affiliated companies for these services are included in receivables from affiliated companies and payables to affiliated companies on the Balance Sheets.

PESC provides the majority of the affiliated services under the approved agreements. Services provided by PESC during 2008, 2007 and 2006 to PEC amounted to \$194 million, \$182 million and \$188 million, respectively, and services provided to PEF were \$160 million, \$174 million and \$165 million, respectively.

PEC and PEF also provide and receive services at cost. Services provided by PEC to PEF during 2008, 2007 and 2006 amounted to \$44 million, \$54 million and \$34 million, respectively. Services provided by PEF to PEC during 2008, 2007 and 2006 amounted to \$12 million, \$10 million and \$8 million, respectively.

PEC and PEF participate in an internal money pool, operated by Progress Energy, to more effectively utilize cash resources and to reduce outside short-term borrowings. The money pool is also used to settle intercompany balances. The weighted-average interest rate for the money pool was 3.29%, 5.49% and 5.17% at December 31, 2008, 2007 and 2006, respectively. Amounts payable to the money pool are included in notes payable to affiliated companies on the Balance Sheets. PEC and PEF recorded insignificant interest expense related to the money pool for all the years presented.

Progress Fuels sold coal to PEF at cost in 2007 and 2006. These intercompany revenues and expenses are eliminated in consolidation; however, in accordance with SFAS No. 71, profits on intercompany sales to regulated affiliates are not eliminated if the sales price is reasonable and the future recovery of sales price through the ratemaking process is probable. Sales, net of insignificant profits, if any, of \$2 million and \$321 million for the years ended December 31, 2007 and 2006, respectively, are included in fuel used in electric generation on the Consolidated Statements of Income. In 2006, PEF began entering into coal contracts on its own behalf.

PEC and its wholly owned subsidiaries and PEF have entered into the Tax Agreement with the Parent (See Note 14).

19. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable PEC and PEF business segments are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina, South Carolina and Florida. These electric operations also distribute and sell electricity to other utilities, primarily in the eastern United States.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC and other miscellaneous nonregulated businesses that do not separately meet the quantitative disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," as a separate business segment. The profit or loss of our reportable segments plus the profit or loss of Corporate and Other represents our total income from continuing operations.

Products and services are sold between the various reportable segments. All intersegment transactions are at cost except for 2007 and 2006 transactions between PEF and businesses included in the Corporate and Other segment, which are at rates set by the FPSC. In accordance with SFAS No. 71, profits on intercompany sales between PEF and businesses included in the Corporate and Other segment are not eliminated if the sales price is reasonable and the future recovery of sales price through the ratemaking process is probable. The profits realized for 2007 and 2006 were not significant.

In the following tables, capital and investment expenditures include property additions, acquisitions of nuclear fuel and other capital investments. Operational results and assets to be divested are not included in the table presented below.

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
As of and for the year ended December 31, 2008					
Revenues					
Unaffiliated	\$4,429	\$4,730	\$8	\$ –	\$9,167
Intersegment	–	1	361	(362)	–
Total revenues	4,429	4,731	369	(362)	9,167
Depreciation, amortization and accretion					
	518	306	15	–	839
Interest income	12	9	38	(35)	24
Total interest charges, net	207	208	259	(35)	639
Income tax expense (benefit)	298	181	(84)	–	395
Segment profit (loss)	531	383	(141)	–	773
Total assets	13,165	12,471	17,483	(13,246)	29,873
Capital and investment expenditures	939	1,601	33	(13)	2,560

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
As of and for the year ended December 31, 2007					
Revenues					
Unaffiliated	\$4,385	\$4,748	\$ 20	\$ –	\$9,153
Intersegment	–	1	393	(394)	–
Total revenues	4,385	4,749	413	(394)	9,153
Depreciation, amortization and accretion	519	366	20	–	905
Interest income	21	9	55	(51)	34
Total interest charges, net	210	173	258	(53)	588
Income tax expense (benefit)	295	144	(105)	–	334
Segment profit (loss)	498	315	(120)	–	693
Total assets	11,955	10,063	16,356	(12,088)	26,286
Capital and investment expenditures	941	1,262	3	(2)	2,204

(in millions)	PEC	PEF	Corporate and Other	Eliminations	Totals
As of and for the year ended December 31, 2006					
Revenues					
Unaffiliated	\$4,086	\$4,638	\$ –	\$ –	\$8,724
Intersegment	–	1	729	(730)	–
Total revenues	4,086	4,639	729	(730)	8,724
Depreciation, amortization and accretion	571	404	36	–	1,011
Interest income	25	15	85	(66)	59
Total interest charges, net	215	150	326	(67)	624
Income tax expense (benefit)	265	193	(119)	–	339
Segment profit (loss)	454	326	(229)	–	551
Total assets	11,999	8,648	15,394	(11,266)	24,775
Capital and investment expenditures	808	741	12	(9)	1,552

20. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. The components of other, net as shown on the accompanying Statements of Income for the years ended December 31 were as follows:

Progress Energy

(in millions)	2008	2007	2006
OTHER INCOME			
Nonregulated energy and delivery services income	\$38	\$36	\$41
DIG Issue C20 amortization (Note 17A)	3	4	5
Gain on sale of Level 3 Communications, Inc. stock ^(a)	—	—	32
Investment gains, net	—	5	4
Income from equity investments, net	1	—	—
Reversal of indemnification liability (Note 21B)	—	—	29
Other, net	3	—	—
Total other income	45	45	111
OTHER EXPENSE			
Nonregulated energy and delivery services expenses	21	24	27
Donations	25	22	20
Contingent value obligation unrealized loss, net (Note 15)	—	2	25
Investment losses, net	13	—	—
Loss from equity investments, net	—	3	2
Loss on debt redemption ^(b)	—	—	59
Derivative mark-to-market losses, net	3	—	—
Indemnification liability (Note 21B)	—	—	13
Other, net	—	1	2
Total other expense	62	52	148
Other, net – Progress Energy	\$(17)	\$(7)	\$(37)

PEC

(in millions)	2008	2007	2006
OTHER INCOME			
Nonregulated energy and delivery services income	\$20	\$14	\$15
DIG Issue C20 amortization (Note 17A)	3	4	5
Investment gains, net	—	1	—
Reversal of indemnification liability (Note 21B)	—	—	29
Other, net	8	4	3
Total other income	31	23	52
OTHER EXPENSE			
Nonregulated energy and delivery services expenses	9	8	7
Donations	14	9	10
Losses from equity investments, net	1	—	1
Derivative mark-to-market losses	3	—	—
Indemnification liability (Note 21B)	—	—	13
Total other expense	27	17	31
Other, net – PEC	\$4	\$6	\$21

PEF

(in millions)	2008	2007	2006
OTHER INCOME			
Nonregulated energy and delivery services income	\$20	\$24	\$26
Investment gains, net	—	2	2
Other, net	2	—	—
Total other income	22	26	28
OTHER EXPENSE			
Nonregulated energy and delivery services expenses	12	16	20
Donations	11	8	10
Investment losses, net	9	—	—
Losses from equity investments, net	—	1	1
Other, net	—	3	1
Total other expense	32	28	32
Other, net – PEF	\$(10)	\$(2)	\$(4)

- (a) Other income includes pre-tax gains of \$32 million for the year ended December 31, 2006, from the sale of approximately 20 million shares of Level 3 Communications, Inc. stock received as part of the sale of our interest in PT LLC (See Note 3F). These gains are prior to the consideration of minority interest.
- (b) On November 27, 2006, Progress Energy redeemed the entire outstanding \$350 million principal amount of its 6.05% Senior Notes due April 15, 2007, and the entire outstanding \$400 million principal amount of its 5.85% Senior Notes due October 30, 2008. On December 6, 2006, Progress Energy repurchased, pursuant to a tender offer, \$550 million, or 44.0 percent, of the aggregate principal amount of its 7.10% Senior Notes due March 1, 2011. We recognized a total pre-tax loss of \$59 million in conjunction with these redemptions.

21. ENVIRONMENTAL MATTERS

We are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. We believe that we are in substantial compliance with those environmental regulations currently applicable to our business and operations and believe we have all necessary permits to conduct such operations. Environmental laws and regulations frequently change and the ultimate costs of compliance cannot always be precisely estimated.

A. HAZARDOUS AND SOLID WASTE

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing

arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

The following table contains information about accruals for environmental remediation expenses described below. Accruals for probable and estimable costs related to various environmental sites, which were included in other liabilities and deferred credits on the Balance Sheets, at December 31 were:

(in millions)	2008	2007
PEC		
MGP and other sites ^(a)	\$16	\$16
PEF		
Remediation of distribution and substation transformers	22	31
MGP and other sites	15	17
Total PEF environmental remediation accruals ^(b)	37	48
Total Progress Energy environmental remediation accruals	\$53	\$64

^(a) Expected to be paid out over one to five years.

^(b) Expected to be paid out over one to 15 years.

PROGRESS ENERGY

In addition to the Utilities' sites, discussed under "PEC" and "PEF" below, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See discussion under Guarantees in Note 22C).

PEC

In 2006, the NCUC and the SCPSC authorized PEC to defer and amortize certain environmental remediation expenses. Remediation expenses not authorized to be deferred are included in operation and maintenance expense.

Including the Ward Transformer site located in Raleigh, N.C. (Ward), and MGP sites discussed below, for the year ended December 31, 2008, PEC accrued approximately \$8 million, of which \$2 million was deferred, and spent approximately \$8 million. These amounts primarily relate to the Ward site. For the year ended December 31, 2007, including the Carolina Transformer site, the Ward site and MGP sites discussed below, PEC's accrual was reduced by a net amount of approximately \$2 million and PEC spent approximately \$4 million. For the year ended December 31, 2006, PEC accrued approximately \$21 million and spent approximately \$6 million. The 2006 accrual included \$12 million for the minimum estimated total remediation cost for all of PEC's remaining MGP sites based upon newly available data for several of PEC's MGP sites, which had individual site remediation costs ranging from approximately \$2 million to \$4 million.

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time as one of the remaining sites is significantly larger than the sites for which we have historical experience. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

During the fourth quarter of 2004, the EPA advised PEC that it had been identified as a PRP at the Ward site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. During 2007, the PRP agreement was amended to include an additional participating PRP, which reduced, on

an interim basis, PEC's proportionate responsibility for funding the remediation. During 2008, PEC increased its accrual due to an increase in the estimated scope of work. At December 31, 2008 and 2007, PEC's recorded liability for the site was approximately \$7 million and \$6 million, respectively. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. On September 12, 2008, PEC filed a complaint seeking contribution for and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. The complaint names 28 parties that did not sign a tolling agreement with PEC, which was entered into by over 200 PRPs. The tolling agreement suspends the running of the statute of limitations for determination of cost recovery from PRPs at the Ward site. The litigation has been stayed to allow the parties to explore private settlements. The outcome of these matters cannot be predicted.

On September 30, 2008, the EPA issued a Record of Decision for the operable unit for stream segments downstream from the Ward site (Ward OU1) and advised 61 parties, including PEC, of their identification as PRPs for Ward OU1 and for the operable unit for further investigation at the Ward facility and certain adjacent areas (Ward OU2). The EPA's estimate for the selected remedy for Ward OU1 is approximately \$6 million. The EPA offered PEC and the other PRPs the opportunity to negotiate implementation of a response action for Ward OU1 and a remedial investigation and feasibility study for Ward OU2, as well as reimbursement to the EPA of approximately \$1 million for the EPA's past expenditures in addressing conditions at the site. On January 19, 2009, PEC and several of the other participating PRPs at the Ward site submitted a letter containing a good faith response to the EPA's September 30, 2008 letter. Another group of PRPs separately submitted a good faith response to the EPA's September 30, 2008 letter. Although a loss is considered probable, an agreement among the PRPs for these matters has not been reached; consequently, it is not possible at this time to reasonably estimate the total amount of PEC's obligation for Ward OU1 and Ward OU2.

PEF

PEF has received approval from the FPSC for recovery through the ECRC of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed all distribution transformer sites and all substation sites for mineral oil-impacted soil caused by equipment integrity issues. Should further distribution transformer sites be identified outside of this population, the distribution operations and maintenance expense (O&M) costs will not be recoverable through the ECRC. Based on historical experience, PEF projects costs will be between approximately \$3 million and \$4 million per year. For the year ended December 31, 2008, PEF accrued approximately \$17 million, due to the identification of additional transformer sites and an increase in estimated remediation costs, and spent approximately \$26 million related to the remediation of transformers. For the year ended December 31, 2007, PEF accrued approximately \$10 million due to an increase in estimated remediation costs and spent approximately \$22 million related to the remediation of transformers. For the year ended December 31, 2006, PEF accrued approximately \$42 million due to additional sites expected to require remediation and spent approximately \$19 million related to the remediation of transformers. At December 31, 2008 and 2007, PEF has recorded a regulatory asset for the probable recovery of these costs through the ECRC (See Note 7A).

The amounts for MGP and other sites, in the previous table, relate to two former MGP sites and other sites associated with PEF that have required, or are anticipated to require, investigation and/or remediation. The amounts include approximately \$12 million in insurance claim settlement proceeds received in 2004, which are restricted for use in addressing costs associated with environmental liabilities. For the year ended December 31, 2008, PEF made no accruals and spent approximately \$2 million. For the year ended December 31, 2007, PEF made no accruals and spent approximately \$1 million. For the year ended December 31, 2006, PEF made no accruals and PEF's expenditures were not material to our or PEF's results of operations or financial condition.

B. AIR AND WATER QUALITY

At December 31, 2008 and 2007, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the Clean Smokestacks Act and mercury regulation. PEC's and PEF's environmental compliance capital expenditures related to these regulations began in 2002 and 2005, respectively. At December 31,

2008, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.859 billion, including \$1.012 billion at PEC, which primarily relates to Clean Smokestacks Act projects, and \$847 million at PEF, which related entirely to in-process CAIR projects. At December 31, 2007, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.225 billion, including \$902 million at PEC and \$323 million at PEF. PEC completed installation of controls to meet the requirements of the NOx SIP Call Rule under Section 110 of the Clean Air Act (NOx SIP Call) in 2007.

PEF participated in a coalition of Florida utilities that filed a challenge to the CAIR as it applied to Florida. PEF withdrew from the coalition during the fourth quarter of 2008. On July 11, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) issued its decision on multiple challenges to the CAIR, including the Florida challenge, which vacated the CAIR in its entirety. On September 24, 2008, petitions for rehearing were filed by a number of parties. On December 23, 2008, the D.C. Court of Appeals remanded the case without vacating the CAIR for the EPA to conduct further proceedings consistent with the D.C. Court of Appeals' prior opinion. The outcome of the EPA's further proceedings cannot be predicted. The Court's December 23, 2008 decision remanding the CAIR maintained its current implementation such that CAIR satisfies best available retrofit technology (BART) for SO₂ and NOx for BART-affected units under the CAVR. Depending on whether this determination continues to be maintained as the CAIR is revised, for BART-eligible units CAVR compliance eventually may require consideration of NOx and SO₂ emissions in addition to particulate matter emissions. As a result, BART for SO₂ and NOx could apply to PEC's and PEF's BART-eligible units.

On February 8, 2008, the D.C. Court of Appeals vacated the delisting determination and the Clean Air Mercury Rule (CAMR). On September 17, 2008, the Utility Air Regulatory Group filed a petition for writ of certiorari with the U.S. Supreme Court seeking a review of the decision that vacated the CAMR. On October 17, 2008, the EPA filed a similar petition and subsequently withdrew it on January 29, 2009. The Utility Air Regulatory Group's petition for writ of certiorari was denied on February 23, 2009. The three states in which the Utilities operate adopted mercury regulations implementing CAMR and submitted their state implementation rules to the EPA. It is uncertain how the decision that vacated the federal CAMR and any review granted by the Supreme Court will affect the state rules; however, state-specific provisions are likely to remain in effect. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of these matters cannot be predicted.

PEF is continuing construction of its in-process emission control projects. On December 18, 2008, PEF and the FDEP announced an agreement under which PEF will retire Crystal River Units No. 1 and No. 2 (CR1 and CR2) as coal-fired units and complete construction of its emission control projects at CR 4 and CR 5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which is anticipated to be around 2020.

We account for emission allowances as inventory using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. At December 31, 2008, PEC had approximately \$22 million in SO₂ emission allowances, which will be utilized to comply with existing Clean Air Act requirements, and an immaterial amount of NOx emission allowances. In order to achieve compliance with the requirements of the CAIR pursuant to its Integrated Clean Air Compliance Plan, PEF needed to purchase CAIR seasonal and annual NOx allowances. On November 12, 2008, the FPSC approved PEF's petition for recovery of its CAIR expenses, including NOx allowance inventory expense, through the ECRC. At December 31, 2008, PEF had approximately \$59 million in annual NOx emission allowance inventory, \$6 million in seasonal NOx emission allowance inventory and approximately \$11 million in SO₂ emission allowance inventory. SO₂ emission allowances will be utilized to comply with existing Clean Air Act requirements.

As discussed in Note 7B, in June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NOx and SO₂ from their North Carolina coal-fired power plants in phases by 2013. Two of PEC's largest coal-fired generating units (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO₂ removal from its larger coal-fired units,

including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance for the jointly owned units, in 2005 PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately \$38 million. PEC recorded a related liability for the joint owner's share of estimated costs in excess of the contract amount. At December 31, 2008 and 2007, the amount of the liability was \$10 million and \$30 million, respectively, based upon the respective estimates for the remaining Clean Smokestacks Act compliance costs. During the year ended December 31, 2008, PEC made no additional accruals and spent approximately \$20 million that exceeded the joint owner limit. Because PEC has taken a system-wide compliance approach, its North Carolina retail ratepayers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail ratepayers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. On November 2, 2006, PEC notified the NCUC of its intent to record these estimated excess costs as part the Clean Smokestacks amortization, and subsequently reclassified \$29 million of indemnification expense to Clean Smokestacks amortization. On September 5, 2008, the NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million, including eligible compliance costs in excess of the joint owner's share, as the projects are closed to plant in service (See Note 7B).

22. COMMITMENTS AND CONTINGENCIES

A. PURCHASE OBLIGATIONS

In most cases, our purchase obligation contracts contain provisions for price adjustments, minimum purchase levels and other financial commitments. The commitment amounts presented below are estimates and therefore will likely differ from actual purchase amounts. At December 31, 2008, the following table reflects contractual cash obligations and other commercial commitments in the respective periods in which they are due:

Progress Energy

(in millions)	2009	2010	2011	2012	2013	Thereafter
Fuel	\$3,186	\$2,532	\$1,938	\$1,532	\$1,167	\$6,669
Purchased power	422	432	447	436	419	3,477
Construction obligations	1,098	1,458	1,532	1,433	1,511	2,418
Other purchase obligations	53	68	40	33	24	168
Total	\$4,759	\$4,490	\$3,957	\$3,434	\$3,121	\$12,732

PEC

(in millions)	2009	2010	2011	2012	2013	Thereafter
Fuel	\$1,619	\$1,272	\$832	\$596	\$561	\$1,593
Purchased power	87	92	99	85	78	598
Construction obligations	182	72	16	—	2	—
Other purchase obligations	7	3	3	3	3	6
Total	\$1,895	\$1,439	\$950	\$684	\$644	\$2,197

PEF

(in millions)	2009	2010	2011	2012	2013	Thereafter
Fuel	\$1,567	\$1,260	\$1,106	\$936	\$606	\$5,076
Purchased power	335	340	348	351	341	2,879
Construction obligations	916	1,386	1,516	1,433	1,509	2,418
Other purchase obligations	36	30	36	29	21	162
Total	\$2,854	\$3,016	\$3,006	\$2,749	\$2,477	\$10,535

Through our subsidiaries, we have entered into various long-term contracts for coal, oil, gas and nuclear fuel. Our payments under these commitments were \$3.078 billion, \$2.360 billion and \$1.628 billion for 2008, 2007 and 2006, respectively. PEC's total payments under these commitments for its generating plants were \$1.446 billion, \$1.049 billion and \$1.051 billion in 2008, 2007 and 2006, respectively. PEF's payments totaled \$1.632 billion, \$1.311 billion and \$577 million in 2008, 2007 and 2006, respectively.

In December 2008, PEF entered into a nuclear fuel fabrication contract for the planned Levy nuclear units. (See discussion under Construction Obligations below.) This \$355 million contract (fuel plus related core components) is for the period from 2014 through 2027 and contains exit provisions with termination fees that vary based on the circumstance.

Both PEC and PEF have ongoing purchased power contracts with certain co-generators (primarily QFs) with expiration dates ranging from 2009 to 2028. These purchased power contracts generally provide for capacity and energy payments.

PEC has a long-term agreement for the purchase of power and related transmission services from Indiana Michigan Power Company's Rockport Unit No. 2 (Rockport). The agreement provides for the purchase of 250 MW (19 percent of net output) of capacity through 2009 with an estimated remaining 2009 payment of approximately \$29 million, representing capital-related capacity costs. Total purchases (including energy and transmission use charges) under the Rockport agreement amounted to \$90 million, \$77 million and \$80 million for 2008, 2007 and 2006, respectively.

PEC executed two long-term tolling agreements for the purchase of all of the power generated from Broad River LLC's Broad River facility (Broad River). One agreement provides for the purchase of approximately 500 MW of capacity through May 2021 with average minimum annual payments of approximately \$25 million, primarily representing capital-related capacity costs. The second agreement provides for the additional purchase of approximately 335 MW of capacity through February 2022 with average annual payments of approximately \$26 million representing capital-related capacity costs. Total purchases for both capacity and energy under the Broad River agreements amounted to \$44 million, \$39 million and \$45 million in 2008, 2007 and 2006, respectively.

In 2007, PEC executed long-term agreements for the purchase of power from Southern Power Company. The agreements provide for capacity purchases of 305 MW (68 percent of net output) for 2010, 310 MW (30 percent of net output) for 2011 and 150 MW (33 percent of net output) annually thereafter through 2019. Estimated payments for capacity under the agreements are \$23 million for 2010, \$24 million for 2011 and \$16 million annually thereafter through 2019.

PEC has various pay-for-performance contracts with QFs, including renewable energy, for approximately 200 MW of firm capacity expiring at various times through 2028. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. Payments for both capacity and energy are contingent upon the QFs' ability to generate. Payments made under these contracts were \$55 million, \$95 million and \$182 million in 2008, 2007 and 2006, respectively.

PEF has long-term contracts for approximately 489 MW of purchased power with other utilities, including a contract with Southern Company for approximately 414 MW (19 percent of net output) of purchased power annually through 2016. Total purchases, for both energy and capacity, under these agreements amounted to \$178 million, \$161 million and \$162 million for 2008, 2007 and 2006, respectively. Minimum purchases under these contracts, representing capital-related capacity costs, are approximately \$70 million, \$65 million, \$56 million, \$48 million and \$42 million for 2009 through 2013, respectively, and \$102 million payable thereafter.

PEF has ongoing purchased power contracts with certain QFs for 786 MW of firm capacity with expiration dates ranging from 2009 to 2025. Energy payments are based on the actual power taken under these contracts. Capacity payments are subject to the QFs meeting certain contract performance obligations. In most cases, these contracts account for 100 percent of the net generating capacity of each of the facilities. All ongoing commitments have been approved by the FPSC. Total capacity purchases under these contracts amounted to \$273 million, \$288 million and \$277 million for 2008, 2007 and 2006, respectively. At December 31, 2008, minimum expected future capacity

payments under these contracts were \$263 million, \$267 million, \$281 million, \$292 million and \$288 million for 2009 through 2013, respectively, and \$2.751 billion payable thereafter. The FPSC allows the capacity payments to be recovered through a capacity cost-recovery clause, which is similar to, and works in conjunction with, energy payments recovered through the fuel cost-recovery clause.

In June 2008, PEC entered into a conditional contract with an interstate pipeline for firm pipeline transportation capacity to support PEC's gas supply needs for the period from May 2011 through April 2031. The estimated total cost to PEC associated with this agreement is approximately \$487 million. The transaction is subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of this agreement, the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

In July 2008, PEC entered into an amendment to an existing transportation service agreement with an intrastate pipeline for firm pipeline transportation capacity to support PEC's gas supply needs for the period from April 2011 through May 2030. The total additional cost to PEC associated with this amendment is estimated to be approximately \$54 million. The amendment is subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related intrastate natural gas pipeline system expansions and other contractual provisions. Due to the conditions of this agreement, the estimated costs associated with this agreement are not included in the contractual cash obligations table above.

In April 2008 (and as amended in February 2009), PEF entered into conditional contracts and extensions of existing contracts with Florida Gas Transmission Company, LLC (FGT) for firm pipeline transportation capacity to support PEF's gas supply needs for the period from April 2011 through March 2036. The total cost to PEF associated with these agreements is estimated to be approximately \$1.086 billion. The contracts are subject to several conditions precedent, including the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions and other contractual provisions. In addition to the FGT contracts, during 2008, PEF entered into additional gas supply and transportation arrangements for the period from 2010 through 2025 that are subject to certain conditions. The total current notional cost of these additional agreements is estimated to be approximately \$849 million. Due to the conditions of these agreements, the estimated costs associated with these agreements are not included in the contractual cash obligations table above.

CONSTRUCTION OBLIGATIONS

We have purchase obligations related to various capital construction projects. Our total payments under these contracts were \$1.018 billion, \$698 million and \$387 million for 2008, 2007 and 2006, respectively.

PEC has purchase obligations related to various capital projects including new generation, transmission and obligations related to the Clean Smokestacks Act. Total payments under PEC's construction-related contracts were \$140 million, \$208 million and \$233 million for 2008, 2007 and 2006, respectively. PEC's future obligations under these contracts are \$182 million, \$72 million, \$16 million and \$1 million for 2009, 2010, 2011 and 2013, respectively. PEC has no future obligation under these contracts for 2012.

The majority of PEF's construction obligations relate to an engineering, procurement and construction (EPC) agreement that PEF entered into in December 2008 with Westinghouse Electric Company LLC and Stone & Webster, Inc. for two approximately 1,100-MW Westinghouse AP1000 nuclear units planned for construction at Levy. Estimated payments and associated escalation totaling \$8.736 billion are included for the multi-year contract and do not assume any joint ownership. Actual payments under the EPC agreement are dependent upon, and may vary significantly based upon the decision to build, regulatory approval schedules, timing and escalation of project costs, and the percentages, if any, of joint ownership. For termination without cause, the EPC agreement contains exit provisions with termination fees, which may be significant, that vary based on the termination circumstance. See Note 7C for additional information about the Levy project. In 2008, PEF made payments of \$117 million toward long-lead equipment and engineering related to the EPC agreement. Additionally, PEF has other construction obligations related to various capital projects including new generation, transmission and environmental compliance. Total payments under PEF's other construction-related contracts were \$761 million, \$490 million and \$154 million for 2008, 2007 and 2006, respectively.

OTHER PURCHASE OBLIGATIONS

We have entered into various other contractual obligations primarily related to service contracts for operational services entered into by PESC, parts and services contracts, and PEF service agreements related to the Hines Energy Complex and the Bartow plant. Our payments under these agreements were \$110 million, \$75 million and \$100 million for 2008, 2007 and 2006, respectively.

PEC has various purchase obligations for emission obligations, limestone supply and fleet vehicles. Total purchases under these contracts were \$36 million, \$25 million and \$51 million for 2008, 2007 and 2006, respectively. Future obligations under these contracts are \$7 million for 2009, \$3 million each for 2010 through 2013 and \$6 million thereafter.

Among PEF's other purchase obligations, PEF has long-term service agreements for the Hines Energy Complex and the Bartow plant, emission obligations and fleet vehicles. Total payments under these contracts were \$58 million, \$24 million and \$19 million for 2008, 2007 and 2006, respectively. Future obligations are primarily comprised of the long-term service agreements. These agreements total \$31 million, \$29 million, \$36 million, \$29 million and \$21 million for 2009 through 2013, respectively, with approximately \$162 million payable thereafter.

B. LEASES

We lease office buildings, computer equipment, vehicles, railcars and other property and equipment with various terms and expiration dates. Some rental payments for transportation equipment include minimum rentals plus contingent rentals based on mileage. These contingent rentals are not significant. Our rent expense under operating leases totaled \$38 million, \$40 million and \$42 million for 2008, 2007 and 2006, respectively. Our purchased power expense under agreements classified as operating leases was approximately \$152 million, \$69 million and \$60 million in 2008, 2007 and 2006, respectively.

PEC's rent expense under operating leases totaled \$26 million, \$23 million and \$25 million during 2008, 2007 and 2006, respectively. These amounts include rent expense allocated from PESC to PEC of \$5 million, \$6 million and \$8 million for 2008, 2007 and 2006, respectively. Purchased power expense under agreements classified as operating leases was approximately \$9 million, \$10 million and \$10 million in 2008, 2007 and 2006, respectively.

PEF's rent expense under operating leases totaled \$11 million, \$15 million and \$16 million during 2008, 2007 and 2006, respectively. These amounts include rent expense allocated from PESC to PEF of \$3 million, \$6 million and \$7 million for 2008, 2007 and 2006, respectively. Purchased power expense under agreements classified as operating leases was approximately \$142 million, \$59 million and \$49 million in 2008, 2007 and 2006, respectively.

Assets recorded under capital leases, including plant related to purchased power agreements, at December 31 consisted of:

(in millions)	<u>Progress Energy</u>		<u>PEC</u>		<u>PEF</u>	
	2008	2007	2008	2007	2008	2007
Buildings	\$267	\$267	\$30	\$30	\$237	\$237
Less: Accumulated amortization	(28)	(20)	(14)	(13)	(14)	(7)
Total	\$239	\$247	\$16	\$17	\$223	\$230

At December 31, 2008, minimum annual payments, excluding executory costs such as property taxes, insurance and maintenance, under long-term noncancelable operating and capital leases were:

(in millions)	Progress Energy		PEC		PEF	
	Capital	Operating	Capital	Operating	Capital	Operating
2009	\$29	\$48	\$3	\$37	\$26	\$7
2010	28	29	2	21	26	5
2011	28	23	2	16	26	4
2012	28	38	2	13	26	22
2013	36	64	10	31	26	31
Thereafter	272	955	—	559	272	394
Minimum annual payments	421	\$1,157	19	\$677	402	\$463
Less amount representing imputed interest	(182)		(3)		(179)	
Present value of net minimum lease payments under capital leases	\$239		\$16		\$223	

In 2003, we entered into an operating lease for a building for which minimum annual rental payments are approximately \$7 million. The lease term expires July 2035 and provides for no rental payments during the last 15 years of the lease, during which period \$53 million of rental expense will be recorded in the Consolidated Statements of Income.

In 2008, PEC entered into a 336-MW (100 percent of net output) tolling purchased power agreement, which is classified as an operating lease. The agreement calls for an initial minimum payment of approximately \$18 million in 2013, with minimum annual payments escalating at a rate of 2.5 percent through 2032, for a total of approximately \$460 million.

In 2007, PEF entered into a 632-MW (100 percent of net output) tolling purchased power agreement, which is classified as an operating lease. The agreement calls for minimum annual payments of approximately \$28 million from June 2012 through May 2027, for a total of approximately \$420 million.

In 2005, PEF entered into an agreement for a capital lease for a building completed during 2006. The lease term expires March 2047 and provides for minimum annual payments of approximately \$5 million from 2007 through 2026, for a total of approximately \$103 million. The lease term provides for no payments during the last 20 years of the lease, during which period approximately \$51 million of rental expense will be recorded in the Statements of Income.

In 2006, PEF extended the terms of a 517-MW (100 percent of net output) tolling agreement for purchased power, which is classified as a capital lease of the related plant, for an additional 10 years. The agreement calls for minimum annual payments of approximately \$21 million from April 2007 through April 2024, for a total of approximately \$348 million. Due to the conditions of the agreement, the capital lease was not recorded on our or PEF's Balance Sheets until 2007.

In 2006, PEF entered into an agreement for 116.6-MW (100 percent of net output) purchased power, which is classified as a capital lease of the related plant. Due to the conditions of the agreement, the capital lease will not be recorded on PEF's Balance Sheet until approximately 2011. Therefore, this capital lease is not included in the table above. The agreement calls for minimum annual payments of approximately \$7 million from 2012 through November 2036, for a total of approximately \$170 million.

Excluding the Utilities, we are also a lessor of land, buildings and other types of properties we own under operating leases with various terms and expiration dates. The leased buildings are depreciated under the same terms as other buildings included in diversified business property. Minimum rentals receivable under noncancelable leases are approximately \$8 million, \$6 million, \$5 million, \$2 million and \$1 million for 2009 through 2013, respectively. Rents received under these operating leases totaled \$9 million, \$8 million and \$9 million for 2008, 2007 and 2006, respectively.

The Utilities are lessors of electric poles, streetlights and other facilities. PEC's minimum rentals receivable under noncancelable leases are \$10 million for 2009 and none thereafter. PEC's rents received are contingent upon usage and totaled \$33 million each for 2008 and 2007 and \$31 million for 2006. PEF's rents received are based on a fixed minimum rental where price varies by type of equipment or contingent usage and totaled \$81 million, \$78 million and \$72 million for 2008, 2007 and 2006, respectively. PEF's minimum rentals receivable under noncancelable leases are not material for 2009 and thereafter.

C. GUARANTEES

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties, which are outside the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). Such agreements include guarantees, standby letters of credit and surety bonds. At December 31, 2008, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Consolidated Balance Sheets.

At December 31, 2008, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses, which are within the scope of FIN 45. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification (See Note 21B). PEC's maximum exposure cannot be determined. At December 31, 2008, the estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was \$458 million, including \$32 million at PEF. At December 31, 2008 and 2007, we had recorded liabilities related to guarantees and indemnifications to third parties of approximately \$61 million and \$80 million, respectively. These amounts included \$10 million and \$30 million, respectively, for PEC and \$8 million for PEF at December 31, 2008 and 2007. During the year ended December 31, 2008, PEC made no additional accruals and spent approximately \$20 million that exceeded the joint owner limit. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent has issued \$300 million of guarantees of certain payments of two wholly owned indirect subsidiaries (See Note 23).

D. OTHER COMMITMENTS AND CONTINGENCIES

SPENT NUCLEAR FUEL MATTERS

Pursuant to the Nuclear Waste Policy Act of 1982, the Utilities entered into contracts with the DOE under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims. The Utilities have asserted nearly \$91 million in damages incurred between January 31, 1998 and December 31, 2005; the time period set by the court for damages in this case. The Utilities will be free to file subsequent damage claims as they incur additional costs.

A trial was held in November 2007, and closing arguments were presented on April 4, 2008. On May 19, 2008, the Utilities received a ruling from the United States Court of Federal Claims awarding \$83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. The United States

Department of Justice requested that the Trial Court reconsider its ruling. The Trial Court did reconsider its ruling and reduced the damage award by an immaterial amount. On August 15, 2008, the Department of Justice appealed the United States Court of Federal Claims ruling to the D.C. Court of Appeals. In the event that the Utilities recover damages in this matter, such recovery is not expected to have a material impact on the Utilities' results of operations given the anticipated regulatory and accounting treatment. However, the Utilities cannot predict the outcome of this matter.

SYNTHETIC FUELS MATTERS

A number of our subsidiaries and affiliates are parties to two lawsuits arising out of an Asset Purchase Agreement dated as of October 19, 1999, by and among U.S. Global, LLC (Global); Earthco; certain affiliates of Earthco; EFC Synfuel LLC (which was owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (currently named Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to Purchase Agreement as of August 23, 2000 (the Asset Purchase Agreement). Global has asserted (1) that pursuant to the Asset Purchase Agreement, it is entitled to an interest in two synthetic fuels facilities previously owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities, (2) that it is entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities and (3) a number of tort claims are related to the contracts.

The first suit, *U.S. Global, LLC v. Progress Energy, Inc. et al.* (the Florida Global Case), asserts the above claims in a case filed in the Circuit Court for Broward County, Fla., in March 2003, and requests an unspecified amount of compensatory damages, as well as declaratory relief. The Progress Affiliates have answered the Complaint by generally denying all of Global's substantive allegations and asserting numerous substantial affirmative defenses. The case is at issue, but neither party has requested a trial. The parties are currently engaged in discovery in the Florida Global Case.

The second suit, *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC* (the North Carolina Global Case), was filed by the Progress Affiliates in the Superior Court for Wake County, N.C., seeking declaratory relief consistent with our interpretation of the Asset Purchase Agreement. Global was served with the North Carolina Global Case on April 17, 2003.

On May 15, 2003, Global moved to dismiss the North Carolina Global Case for lack of personal jurisdiction over Global. In the alternative, Global requested that the court decline to exercise its discretion to hear the Progress Affiliates' declaratory judgment action. On August 7, 2003, the Wake County Superior Court denied Global's motion to dismiss, but stayed the North Carolina Global Case, pending the outcome of the Florida Global Case. The Progress Affiliates appealed the superior court's order staying the case. By order dated September 7, 2004, the North Carolina Court of Appeals dismissed the Progress Affiliates' appeal. Since that time, the parties have been engaged in discovery in the Florida Global Case.

In December 2006, we reached agreement with Global to settle an additional claim in the suit related to amounts due to Global that were placed in escrow pursuant to a defined tax event. Upon the successful resolution of the IRS audit of the Earthco synthetic fuels facilities in 2006, and pursuant to a settlement agreement, the escrow totaling \$42 million as of December 31, 2006, was paid to Global in January 2007.

In January 2008, Global agreed to simplify the Florida action by dismissing the tort claims. The Florida Global Case continues now under contract theories alone. The case is scheduled to go to trial in June 2009. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

23. CONDENSED CONSOLIDATING STATEMENTS

Presented below are the Condensed Consolidating Statements of Income, Balance Sheets and Cash Flows as required by Rule 3-10 of Regulation S-X. In September 2005, we issued our guarantee of certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.). Our guarantees are in addition to the previously issued guarantees of our wholly owned subsidiary, Florida Progress.

The Trust, a finance subsidiary, was established in 1999 for the sole purpose of issuing \$300 million of 7.10% Cumulative Quarterly Income Preferred Securities due 2039, Series A (Preferred Securities) and using the proceeds thereof to purchase from Funding Corp. \$300 million of 7.10% Junior Subordinated Deferrable Interest Notes due 2039 (Subordinated Notes). The Trust has no other operations and its sole assets are the Subordinated Notes and Notes Guarantee (as discussed below). Funding Corp. is a wholly owned subsidiary of Florida Progress and was formed for the sole purpose of providing financing to Florida Progress and its subsidiaries. Funding Corp. does not engage in business activities other than such financing and has no independent operations. Since 1999, Florida Progress has fully and unconditionally guaranteed the obligations of Funding Corp. under the Subordinated Notes (the Notes Guarantee). In addition, Florida Progress guaranteed the payment of all distributions related to the \$300 million Preferred Securities required to be made by the Trust, but only to the extent that the Trust has funds available for such distributions (the Preferred Securities Guarantee). The Preferred Securities Guarantee, considered together with the Notes Guarantee, constitutes a full and unconditional guarantee by Florida Progress of the Trust's obligations under the Preferred Securities. The Preferred Securities and Preferred Securities Guarantee are listed on the New York Stock Exchange.

The Subordinated Notes may be redeemed at the option of Funding Corp. at par value plus accrued interest through the redemption date. The proceeds of any redemption of the Subordinated Notes will be used by the Trust to redeem proportional amounts of the Preferred Securities and common securities in accordance with their terms. Upon liquidation or dissolution of Funding Corp., holders of the Preferred Securities would be entitled to the liquidation preference of \$25 per share plus all accrued and unpaid dividends thereon to the date of payment. The annual interest expense is \$21 million and is reflected in the Consolidated Statements of Income.

We have guaranteed the payment of all distributions related to the Trust's Preferred Securities. As of December 31, 2008, the Trust had outstanding 12 million shares of the Preferred Securities with a liquidation value of \$300 million. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and, as disclosed in Note 11B, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a special-purpose entity and in accordance with the provisions of FIN 46R, we deconsolidated the Trust on December 31, 2003. The deconsolidation was not material to our financial statements. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only, which is primarily comprised of its wholly owned subsidiary PEF. The Non-guarantor Subsidiary column includes the consolidated financial results of our wholly owned subsidiary PEC. The Other column includes the consolidated financial results of all other non-guarantor subsidiaries, and elimination entries for all intercompany transactions. Financial statements for PEC and PEF are separately presented elsewhere in this Form 10-K. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other non-guarantor subsidiaries operated as independent entities.

Condensed Consolidating Statement of Income
Year Ended December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$4,738	\$4,429	\$—	\$9,167
Operating expenses					
Fuel used in electric generation	—	1,675	1,346	—	3,021
Purchased power	—	953	346	—	1,299
Operation and maintenance	3	813	1,030	(26)	1,820
Depreciation, amortization and accretion	—	306	518	15	839
Taxes other than on income	—	309	198	1	508
Other	—	1	(5)	1	(3)
Total operating expenses	3	4,057	3,433	(9)	7,484
Operating (loss) income	(3)	681	996	9	1,683
Other income (expense)					
Interest income	11	9	12	(8)	24
Allowance for equity funds used during construction	—	95	27	—	122
Other, net	—	(18)	4	(3)	(17)
Total other income (expense), net	11	86	43	(11)	129
Interest charges					
Interest charges	201	263	219	(4)	679
Allowance for borrowed funds used during construction	—	(28)	(12)	—	(40)
Total interest charges, net	201	235	207	(4)	639
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(193)	532	832	2	1,173
Income tax (benefit) expense	(85)	172	298	10	395
Equity in earnings of consolidated subsidiaries	941	—	—	(941)	—
Minority interest in subsidiaries' income, net of tax	—	(5)	—	—	(5)
Income (loss) from continuing operations	833	355	534	(949)	773
Discontinued operations, net of tax	(3)	60	—	—	57
Net income (loss)	\$830	\$415	\$534	\$(949)	\$830

Condensed Consolidating Statement of Income
Year Ended December 31, 2007

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$4,768	\$4,385	\$—	\$9,153
Operating expenses					
Fuel used in electric generation	—	1,764	1,381	—	3,145
Purchased power	—	882	302	—	1,184
Operation and maintenance	10	834	1,024	(26)	1,842
Depreciation, amortization and accretion	—	369	519	17	905
Taxes other than on income	—	309	192	—	501
Other	—	20	(2)	12	30
Total operating expenses	10	4,178	3,416	3	7,607
Operating (loss) income	(10)	590	969	(3)	1,546
Other income (expense)					
Interest income	27	8	21	(22)	34
Allowance for equity funds used during construction	—	41	10	—	51
Other, net	—	(2)	6	(11)	(7)
Total other income (expense), net	27	47	37	(33)	78
Interest charges					
Interest charges	203	210	215	(23)	605
Allowance for borrowed funds used during construction	—	(12)	(5)	—	(17)
Total interest charges, net	203	198	210	(23)	588
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(186)	439	796	(13)	1,036
Income tax (benefit) expense	(79)	117	295	1	334
Equity in earnings of consolidated subsidiaries	596	—	—	(596)	—
Minority interest in subsidiaries' income, net of tax	—	(9)	—	—	(9)
Income (loss) from continuing operations	489	313	501	(610)	693
Discontinued operations, net of tax	15	30	—	(234)	(189)
Net income (loss)	\$504	\$343	\$501	\$(844)	\$504

Condensed Consolidating Statement of Income
Year Ended December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$4,637	\$4,086	\$1	\$8,724
Operating expenses					
Fuel used in electric generation	—	1,835	1,173	—	3,008
Purchased power	—	766	334	—	1,100
Operation and maintenance	14	684	930	(45)	1,583
Depreciation, amortization and accretion	—	406	571	34	1,011
Taxes other than on income	—	309	191	—	500
Other	—	21	—	14	35
Total operating expenses	14	4,021	3,199	3	7,237
Operating (loss) income	(14)	616	887	(2)	1,487
Other income (expense)					
Interest income	47	15	25	(28)	59
Allowance for equity funds used during construction	—	17	4	—	21
Other, net	(80)	23	21	(1)	(37)
Total other (expense) income, net	(33)	55	50	(29)	43
Interest charges					
Interest charges	276	187	217	(49)	631
Allowance for borrowed funds used during construction	—	(5)	(2)	—	(7)
Total interest charges, net	276	182	215	(49)	624
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(323)	489	722	18	906
Income tax (benefit) expense	(123)	174	265	23	339
Equity in earnings of consolidated subsidiaries	779	—	—	(779)	—
Minority interest in subsidiaries' income, net of tax	—	(16)	—	—	(16)
Income (loss) from continuing operations	579	299	457	(784)	551
Discontinued operations, net of tax	(8)	400	—	(372)	20
Net income (loss)	\$571	\$699	\$457	\$(1,156)	\$571

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$—	\$8,790	\$9,385	\$118	\$18,293
Current assets					
Cash and cash equivalents	88	73	18	1	180
Receivables, net	—	363	502	2	867
Notes receivable from affiliated companies	34	44	55	(133)	—
Inventory	—	606	633	—	1,239
Regulatory assets	—	326	207	—	533
Derivative collateral posted	—	335	18	—	353
Prepayments and other current assets	48	169	137	(6)	348
Total current assets	170	1,916	1,570	(136)	3,520
Deferred debits and other assets					
Investment in consolidated subsidiaries	11,924	—	—	(11,924)	—
Regulatory assets	—	1,324	1,243	—	2,567
Nuclear decommissioning trust funds	—	417	672	—	1,089
Goodwill	—	—	—	3,655	3,655
Other assets and deferred debits	155	196	295	103	749
Total deferred debits and other assets	12,079	1,937	2,210	(8,166)	8,060
Total assets	\$12,249	\$12,643	\$13,165	\$(8,184)	\$29,873
CAPITALIZATION AND LIABILITIES					
Capitalization					
Common stock equity	\$8,687	\$3,519	\$4,301	\$(7,820)	\$8,687
Preferred stock of subsidiaries — not subject to mandatory redemption	—	34	59	—	93
Minority interest	—	3	—	3	6
Long-term debt, affiliate	—	309	—	(37)	272
Long-term debt, net	2,696	4,182	3,509	—	10,387
Total capitalization	11,383	8,047	7,869	(7,854)	19,445
Current liabilities					
Short-term debt	569	371	110	—	1,050
Notes payable to affiliated companies	—	206	—	(206)	—
Derivative liabilities	31	380	82	—	493
Other current liabilities	220	964	773	(14)	1,943
Total current liabilities	820	1,921	965	(220)	3,486
Deferred credits and other liabilities					
Noncurrent income tax liabilities	1	118	1,111	(412)	818
Regulatory liabilities	—	1,076	987	118	2,181
Accrued pension and other benefits	10	540	856	188	1,594
Other liabilities and deferred credits	35	941	1,377	(4)	2,349
Total deferred credits and other liabilities	46	2,675	4,331	(110)	6,942
Total capitalization and liabilities	\$12,249	\$12,643	\$13,165	\$(8,184)	\$29,873

Condensed Consolidating Balance Sheet
December 31, 2007

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$–	\$7,600	\$8,880	\$125	\$16,605
Current assets					
Cash and cash equivalents	185	43	25	2	255
Receivables, net	–	574	446	102	1,122
Notes receivable from affiliated companies	157	149	–	(306)	–
Inventory	–	484	510	–	994
Regulatory assets	–	6	148	–	154
Assets to be divested	–	48	–	4	52
Prepayments and other current assets	21	188	110	(94)	225
Total current assets	363	1,492	1,239	(292)	2,802
Deferred debits and other assets					
Investment in consolidated subsidiaries	10,942	–	–	(10,942)	–
Regulatory assets	–	266	680	–	946
Nuclear decommissioning trust funds	–	580	804	–	1,384
Goodwill	–	1	–	3,654	3,655
Other assets and deferred debits	149	729	352	(284)	946
Total deferred debits and other assets	11,091	1,576	1,836	(7,572)	6,931
Total assets	\$11,454	\$10,668	\$11,955	\$(7,739)	\$26,338
CAPITALIZATION AND LIABILITIES					
Common stock equity	\$8,395	\$3,052	\$3,752	\$(6,804)	\$8,395
Preferred stock of subsidiaries – not subject to mandatory redemption	–	34	59	–	93
Minority interest	–	81	–	3	84
Long-term debt, affiliate	–	309	–	(38)	271
Long-term debt, net	2,597	2,686	3,183	–	8,466
Total capitalization	10,992	6,162	6,994	(6,839)	17,309
Current liabilities					
Current portion of long-term debt	–	577	300	–	877
Short-term debt	201	–	–	–	201
Notes payable to affiliated companies	–	227	154	(381)	–
Derivative liabilities	–	38	19	–	57
Liabilities to be divested	–	8	–	–	8
Other current liabilities	215	1,199	697	48	2,159
Total current liabilities	416	2,049	1,170	(333)	3,302
Deferred credits and other liabilities					
Noncurrent income tax liabilities	–	59	936	(634)	361
Regulatory liabilities	–	1,330	1,098	126	2,554
Accrued pension and other benefits	12	347	459	(55)	763
Other liabilities and deferred credits	34	721	1,298	(4)	2,049
Total deferred credits and other liabilities	46	2,457	3,791	(567)	5,727
Total capitalization and liabilities	\$11,454	\$10,668	\$11,955	\$(7,739)	\$26,338

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Net cash (used) provided by operating activities	\$(90)	\$221	\$1,061	\$26	\$1,218
Investing activities					
Gross property additions	—	(1,553)	(760)	(20)	(2,333)
Nuclear fuel additions	—	(43)	(179)	—	(222)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	59	8	5	72
Proceeds from sales of assets to affiliated companies	—	12	—	(12)	—
Purchases of available-for-sale securities and other investments	(7)	(783)	(682)	(118)	(1,590)
Proceeds from available-for-sale securities and other investments	—	788	626	120	1,534
Changes in advances to affiliated companies	123	105	(55)	(173)	—
Contributions to consolidated subsidiaries	(101)	—	—	101	—
Other investing activities	20	8	—	(30)	(2)
Net cash provided (used) by investing activities	35	(1,407)	(1,042)	(127)	(2,541)
Financing activities					
Issuance of common stock	132	—	—	—	132
Dividends paid on common stock	(642)	—	—	—	(642)
Dividends paid to parent	—	(33)	—	33	—
Payments of short-term debt with original maturities greater than 90 days	(176)	—	—	—	(176)
Proceeds from issuance of short-term debt with original maturities greater than 90 days	29	—	—	—	29
Net increase in short-term debt	615	371	110	—	1,096
Proceeds from issuance of long-term debt, net	—	1,475	322	—	1,797
Retirement of long-term debt	—	(577)	(300)	—	(877)
Cash distributions to minority interests of consolidated subsidiaries	—	(85)	—	—	(85)
Changes in advances from affiliated companies	—	(21)	(154)	175	—
Contributions from parent	—	85	15	(100)	—
Other financing activities	—	1	(19)	(8)	(26)
Net cash (used) provided by financing activities	(42)	1,216	(26)	100	1,248
Net (decrease) increase in cash and cash equivalents	(97)	30	(7)	(1)	(75)
Cash and cash equivalents at beginning of year	185	43	25	2	255
Cash and cash equivalents at end of year	\$88	\$73	\$18	\$1	\$180

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2007

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$76	\$489	\$1,018	\$(331)	\$1,252
Investing activities					
Gross property additions	—	(1,218)	(757)	2	(1,973)
Nuclear fuel additions	—	(44)	(184)	—	(228)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	51	10	614	675
Purchases of available-for-sale securities and other investments	—	(640)	(603)	(170)	(1,413)
Proceeds from available-for-sale securities and other investments	21	640	622	169	1,452
Changes in advances to affiliated companies	(99)	(112)	24	187	—
Return of investment in consolidated subsidiaries	340	—	—	(340)	—
Other investing activities	(31)	32	(4)	33	30
Net cash provided (used) by investing activities	231	(1,291)	(892)	495	(1,457)
Financing activities					
Issuance of common stock	151	—	—	—	151
Dividends paid on common stock	(627)	—	—	—	(627)
Dividends paid to parent	—	(10)	(143)	153	—
Proceeds from issuance of short-term debt with original maturities greater than 90 days	176	—	—	—	176
Net increase in short-term debt	25	—	—	—	25
Proceeds from issuance of long-term debt, net	—	739	—	—	739
Retirement of long-term debt	—	(124)	(200)	—	(324)
Cash distributions to minority interests of consolidated subsidiaries	—	(10)	—	—	(10)
Changes in advances from affiliated companies	—	151	154	(305)	—
Contributions from parent	—	10	21	(31)	—
Other financing activities	—	49	(4)	20	65
Net cash (used) provided by financing activities	(275)	805	(172)	(163)	195
Net increase (decrease) in cash and cash equivalents	32	3	(46)	1	(10)
Cash and cash equivalents at beginning of year	153	40	71	1	265
Cash and cash equivalents at end of year	\$185	\$43	\$25	\$2	\$255

Condensed Consolidating Statement of Cash Flows
Year Ended December 31, 2006

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$1,295	\$1,110	\$1,094	\$(1,498)	\$2,001
Investing activities					
Gross property additions	—	(865)	(705)	(2)	(1,572)
Nuclear fuel additions	—	(12)	(102)	—	(114)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	1,242	5	410	1,657
Purchases of available-for-sale securities and other investments	(919)	(625)	(896)	(12)	(2,452)
Proceeds from available-for-sale securities and other investments	898	724	1,006	3	2,631
Changes in advances to affiliated companies	409	(39)	(24)	(346)	—
Proceeds from repayment of long-term affiliate debt	131	—	—	(131)	—
Return of investment in consolidated subsidiaries	287	—	—	(287)	—
Other investing activities	(63)	(6)	(6)	52	(23)
Net cash provided (used) by investing activities	743	419	(722)	(313)	127
Financing activities					
Issuance of common stock	185	—	—	—	185
Dividends paid on common stock	(607)	—	—	—	(607)
Dividends paid to parent	—	(1,135)	(339)	1,474	—
Net decrease in short-term debt	—	(102)	(73)	—	(175)
Proceeds from issuance of long-term debt, net	397	—	—	—	397
Retirement of long-term debt	(2,091)	(109)	—	—	(2,200)
Retirement of long-term affiliate debt	—	(131)	—	131	—
Cash distributions to minority interests of consolidated subsidiaries	—	(79)	—	—	(79)
Changes in advances from affiliated companies	—	(243)	(11)	254	—
Contributions from parent	—	67	—	(67)	—
Other financing activities	(8)	4	(3)	18	11
Net cash (used) provided by financing activities	(2,124)	(1,728)	(426)	1,810	(2,468)
Net decrease in cash and cash equivalents	(86)	(199)	(54)	(1)	(340)
Cash and cash equivalents at beginning of year	239	239	125	2	605
Cash and cash equivalents at end of year	\$153	\$40	\$71	\$1	\$265

24. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data was as follows:

Progress Energy

(in millions except per share data)	First	Second	Third	Fourth
2008				
Operating revenues	\$2,066	\$2,244	\$2,696	\$2,161
Operating income	365	406	591	321
Income from continuing operations	149	200	308	116
Net income	209	205	309	107
Common stock data				
Basic earnings per common share				
Income from continuing operations	0.58	0.77	1.18	0.44
Net income	0.81	0.79	1.19	0.41
Diluted earnings per common share				
Income from continuing operations	0.58	0.77	1.18	0.44
Net income	0.81	0.79	1.18	0.41
Dividends declared per common share	0.615	0.615	0.615	0.620
Market price per share – High	49.16	43.58	45.52	45.60
– Low	40.54	41.00	40.11	32.60
2007				
Operating revenues	\$2,072	\$2,129	\$2,750	\$2,202
Operating income	351	301	610	284
Income from continuing operations	149	138	311	95
Net income (loss)	275	(193)	319	103
Common stock data				
Basic earnings per common share				
Income from continuing operations	0.59	0.54	1.21	0.37
Net income (loss)	1.08	(0.75)	1.24	0.40
Diluted earnings per common share				
Income from continuing operations	0.59	0.54	1.21	0.37
Net income (loss)	1.08	(0.75)	1.24	0.40
Dividends declared per common share	0.610	0.610	0.610	0.615
Market price per share – High	51.60	52.75	49.48	50.25
– Low	47.05	45.15	43.12	44.75

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year.

PEC

Summarized quarterly financial data was as follows:

(in millions)	First	Second	Third	Fourth
2008				
Operating revenues	\$1,068	\$1,048	\$1,266	\$1,047
Operating income	240	205	353	198
Net income	123	104	201	106
2007				
Operating revenues	\$1,058	\$996	\$1,286	\$1,045
Operating income	235	180	375	179
Net income	124	88	204	85

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year.

PEF

Summarized quarterly financial data was as follows:

(in millions)	First	Second	Third	Fourth
2008				
Operating revenues	\$996	\$1,194	\$1,428	\$1,113
Operating income	122	198	236	124
Net income	67	125	143	50
2007				
Operating revenues	\$1,011	\$1,129	\$1,456	\$1,153
Operating income	117	125	235	109
Net income	61	68	138	50

In the opinion of management, all adjustments necessary to fairly present amounts shown for interim periods have been made. Results of operations for an interim period may not give a true indication of results for the year.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a) The following documents are filed as part of the report:

I. Financial Statements Filed:

See Item 8 –Financial Statements and Supplementary Data

2. Financial Statement Schedules Filed:

Consolidated Financial Statement Schedules for the Years Ended December 31, 2008, 2007 and 2006:

Schedule II – Valuation and Qualifying Accounts – Progress Energy, Inc.	244
Schedule II – Valuation and Qualifying Accounts – Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.	245
Schedule II – Valuation and Qualifying Accounts – Florida Power Corporation d/b/a Progress Energy Florida, Inc.	246

All other schedules have been omitted as not applicable or are not required because the information required to be shown is included in the Financial Statements or the Combined Notes to the Financial Statements.

3. Exhibits Filed:

See EXHIBIT INDEX

PROGRESS ENERGY, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning of Period	Additions Charged to Expenses	Other Additions	Deductions ^(a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2008					
Uncollectible accounts	\$29	\$24	\$—	\$(35)	\$18
Fossil fuel plants dismantlement reserve	144	1	—	—	145
Nuclear refueling outage reserve	2	12	—	—	14
DECEMBER 31, 2007					
Uncollectible accounts	\$28	\$26	\$(1)	\$(24)	\$29
Fossil fuel plants dismantlement reserve	145	1	—	(2)	144
Nuclear refueling outage reserve	16	15	—	(29)	2
DECEMBER 31, 2006					
Uncollectible accounts	\$19	\$29	\$—	\$(20)	\$28
Fossil fuel plants dismantlement reserve	145	1	—	(1)	145
Nuclear refueling outage reserve	2	14	—	—	16

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. In the case of the provision for uncollectible accounts, such deductions are reduced by recoveries of amounts previously written off.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning of Period	Additions Charged to Expense	Other Additions	Deductions (a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2008					
Uncollectible accounts	\$6	\$10	\$–	\$(10)	\$6
DECEMBER 31, 2007					
Uncollectible accounts	\$5	\$10	\$2	\$(11)	\$6
DECEMBER 31, 2006					
Uncollectible accounts	\$4	\$9	\$–	\$(8)	\$5

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. Such deductions are reduced by recoveries of amounts previously written off.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
Schedule II – Valuation and Qualifying Accounts
For the Years Ended
(in millions)

Description	Balance at Beginning Of Period	Additions Charged to Expense	Other Additions	Deductions (a)	Balance at End of Period
Valuation and qualifying accounts deducted on the balance sheet from the related assets:					
DECEMBER 31, 2008					
Uncollectible accounts	\$10	\$14	\$1	\$(14)	\$11
Fossil fuel plants dismantlement reserve	144	1	–	–	145
Nuclear refueling outage reserve	2	12	–	–	14
DECEMBER 31, 2007					
Uncollectible accounts	\$8	\$14	\$1	\$(13)	\$10
Fossil fuel plants dismantlement reserve	145	1	–	(2)	144
Nuclear refueling outage reserve	16	15	–	(29)	2
DECEMBER 31, 2006					
Uncollectible accounts	\$6	\$14	\$–	\$(12)	\$8
Fossil fuel plants dismantlement reserve	145	1	–	(1)	145
Nuclear refueling outage reserve	2	14	–	–	16

^(a) Deductions from provisions represent losses or expenses for which the respective provisions were created. In the case of the provision for uncollectible accounts, such deductions are reduced by recoveries of amounts previously written off.

EXHIBIT A (6)(ii)

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

ITEM 1. FINANCIAL STATEMENTS

PROGRESS ENERGY, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2009

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

(in millions except per share data)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Operating revenues	\$2,312	\$2,244	\$4,754	\$4,310
Operating expenses				
Fuel used in electric generation	826	696	1,780	1,393
Purchased power	257	330	474	562
Operation and maintenance	484	488	937	931
Depreciation, amortization and accretion	226	208	506	414
Taxes other than on income	130	125	273	246
Other	10	(9)	12	(7)
Total operating expenses	1,933	1,838	3,982	3,539
Operating income	379	406	772	771
Other income (expense)				
Interest income	2	5	6	12
Allowance for equity funds used during construction	36	27	75	50
Other, net	13	3	12	(2)
Total other income, net	51	35	93	60
Interest charges				
Interest charges	181	154	360	315
Allowance for borrowed funds used during construction	(12)	(8)	(24)	(16)
Total interest charges, net	169	146	336	299
Income from continuing operations before income tax	261	295	529	532
Income tax expense	86	95	171	179
Income from continuing operations	175	200	358	353
Discontinued operations, net of tax	(1)	5	(1)	66
Net income	174	205	357	419
Net income attributable to noncontrolling interests, net of tax	—	—	(1)	(5)
Net income attributable to controlling interests	\$174	\$205	\$356	\$414
Average common shares outstanding – basic	280	261	278	261
Basic and diluted earnings per common share				
Income from continuing operations attributable to controlling interests, net of tax	\$0.62	\$0.76	\$1.28	\$1.34
Discontinued operations attributable to controlling interests, net of tax	—	0.02	—	0.25
Net income attributable to controlling interests	\$0.62	\$0.78	\$1.28	\$1.59
Dividends declared per common share	\$0.620	\$0.615	\$1.240	\$1.230
Amounts attributable to controlling interests				
Income from continuing operations attributable to controlling interests, net of tax	\$175	\$200	\$357	\$349
Discontinued operations attributable to controlling interests, net of tax	(1)	5	(1)	65
Net income attributable to controlling interests	\$174	\$205	\$356	\$414

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2009	December 31, 2008
ASSETS		
Utility plant		
Utility plant in service	\$27,822	\$26,326
Accumulated depreciation	(11,396)	(11,298)
Utility plant in service, net	16,426	15,028
Held for future use	38	38
Construction work in progress	2,024	2,745
Nuclear fuel, net of amortization	486	482
Total utility plant, net	18,974	18,293
Current assets		
Cash and cash equivalents	452	180
Receivables, net	882	867
Inventory	1,353	1,239
Regulatory assets	426	533
Derivative collateral posted	302	353
Income taxes receivable	72	194
Prepayments and other current assets	218	154
Total current assets	3,705	3,520
Deferred debits and other assets		
Regulatory assets	2,623	2,567
Nuclear decommissioning trust funds	1,160	1,089
Miscellaneous other property and investments	450	446
Goodwill	3,655	3,655
Other assets and deferred debits	307	303
Total deferred debits and other assets	8,195	8,060
Total assets	\$30,874	\$29,873
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 279 million and 264 million shares issued and outstanding, respectively	\$6,776	\$6,206
Unearned ESOP shares (1 million shares)	(12)	(25)
Accumulated other comprehensive loss	(96)	(116)
Retained earnings	2,621	2,622
Total common stock equity	9,289	8,687
Noncontrolling interests	6	6
Total equity	9,295	8,693
Preferred stock of subsidiaries	93	93
Long-term debt, affiliate	272	272
Long-term debt, net	10,834	10,387
Total capitalization	20,494	19,445
Current liabilities		
Current portion of long-term debt	400	—
Short-term debt	500	1,050
Accounts payable	853	912
Interest accrued	181	167
Dividends declared	174	164
Customer deposits	290	282
Derivative liabilities	409	493
Other current liabilities	411	418
Total current liabilities	3,218	3,486
Deferred credits and other liabilities		
Noncurrent income tax liabilities	941	818
Accumulated deferred investment tax credits	122	127
Regulatory liabilities	2,276	2,181
Asset retirement obligations	1,518	1,471
Accrued pension and other benefits	1,602	1,594
Capital lease obligations	227	231
Derivative liabilities	244	269
Other liabilities and deferred credits	232	251
Total deferred credits and other liabilities	7,162	6,942
Commitments and contingencies (Notes 14 and 15)		
Total capitalization and liabilities	\$30,874	\$29,873

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Six months ended June 30	2009	2008
Operating activities		
Net income	\$357	\$419
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	576	467
Deferred income taxes and investment tax credits, net	13	98
Deferred fuel cost (credit)	129	(166)
Allowance for equity funds used during construction	(75)	(50)
Gain on sale of assets	—	(71)
Other adjustments to net income	118	57
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(36)	224
Inventory	(118)	(116)
Prepayments and other current assets	48	(28)
Income taxes, net	110	(60)
Accounts payable	(30)	293
Derivative collateral held	—	312
Other current liabilities	13	10
Other assets and deferred debits	40	(33)
Other liabilities and deferred credits	(50)	1
Net cash provided by operating activities	1,095	1,357
Investing activities		
Gross property additions	(1,172)	(1,260)
Nuclear fuel additions	(60)	(43)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	64
Purchases of available-for-sale securities and other investments	(982)	(836)
Proceeds from available-for-sale securities and other investments	960	816
Other investing activities	(3)	(15)
Net cash used by investing activities	(1,257)	(1,274)
Financing activities		
Issuance of common stock	545	42
Dividends paid on common stock	(347)	(320)
Payments of short-term debt with original maturities greater than 90 days	(29)	(176)
Net (decrease) increase in short-term debt	(621)	318
Proceeds from issuance of long-term debt, net	1,337	1,798
Retirement of long-term debt	(400)	(427)
Cash distributions to noncontrolling interests	(4)	(85)
Other financing activities	(47)	(65)
Net cash provided by financing activities	434	1,085
Net increase in cash and cash equivalents	272	1,168
Cash and cash equivalents at beginning of period	180	255
Cash and cash equivalents at end of period	\$452	\$1,423
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$301	\$263

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
June 30, 2009

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2009	2008	2009	2008
Operating revenues	\$1,076	\$1,048	\$2,254	\$2,116
Operating expenses				
Fuel used in electric generation	383	323	825	679
Purchased power	57	72	114	121
Operation and maintenance	283	275	542	523
Depreciation, amortization and accretion	118	129	235	255
Taxes other than on income	51	49	105	99
Other	2	(5)	2	(6)
Total operating expenses	894	843	1,823	1,671
Operating income	182	205	431	445
Other income (expense)				
Interest income	1	2	3	7
Allowance for equity funds used during construction	7	5	16	10
Other, net	4	6	(3)	5
Total other income, net	12	13	16	22
Interest charges				
Interest charges	52	52	109	110
Allowance for borrowed funds used during construction	(3)	(2)	(6)	(4)
Total interest charges, net	49	50	103	106
Income before income tax	145	168	344	361
Income tax expense	51	64	122	134
Net income	94	104	222	227
Net loss attributable to noncontrolling interests, net of tax	1	—	1	—
Net income attributable to controlling interests	95	104	223	227
Preferred stock dividend requirement	—	—	1	1
Net income available to common stockholders	\$95	\$104	\$222	\$226

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions)	June 30, 2009	December 31, 2008
ASSETS		
Utility plant		
Utility plant in service	\$16,237	\$15,698
Accumulated depreciation	(7,471)	(7,352)
Utility plant in service, net	8,766	8,346
Held for future use	3	3
Construction work in progress	450	660
Nuclear fuel, net of amortization	351	376
Total utility plant, net	9,570	9,385
Current assets		
Cash and cash equivalents	18	18
Receivables, net	453	502
Receivables from affiliated companies	16	29
Notes receivable from affiliated companies	130	55
Inventory	691	633
Deferred fuel cost	148	207
Income taxes receivable	32	98
Prepayments and other current assets	45	28
Total current assets	1,533	1,570
Deferred debits and other assets		
Regulatory assets	1,247	1,243
Nuclear decommissioning trust funds	725	672
Miscellaneous other property and investments	203	197
Other assets and deferred debits	98	98
Total deferred debits and other assets	2,273	2,210
Total assets	\$13,376	\$13,165
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	\$2,099	\$2,083
Unearned ESOP common stock	(12)	(25)
Accumulated other comprehensive loss	(31)	(35)
Retained earnings	2,298	2,278
Total common stock equity	4,354	4,301
Noncontrolling interests	3	4
Total equity	4,357	4,305
Preferred stock	59	59
Long-term debt, net	3,709	3,509
Total capitalization	8,125	7,873
Current liabilities		
Short-term debt	—	110
Accounts payable	296	377
Payables to affiliated companies	58	82
Interest accrued	66	59
Customer deposits	90	82
Derivative liabilities	48	82
Other current liabilities	178	173
Total current liabilities	736	965
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,162	1,111
Accumulated deferred investment tax credits	113	115
Regulatory liabilities	1,082	987
Asset retirement obligations	1,158	1,122
Accrued pension and other benefits	863	856
Other liabilities and deferred credits	137	136
Total deferred credits and other liabilities	4,515	4,327
Commitments and contingencies (Notes 14 and 15)		
Total capitalization and liabilities	\$13,376	\$13,165

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Six months ended June 30

	2009	2008
Operating activities		
Net income	\$222	\$227
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	286	304
Deferred income taxes and investment tax credits, net	10	15
Deferred fuel cost	92	30
Allowance for equity funds used during construction	(16)	(10)
Other adjustments to net income	52	19
Cash provided (used) by changes in operating assets and liabilities		
Receivables	42	(27)
Receivables from affiliated companies	13	30
Inventory	(60)	(36)
Prepayments and other current assets	7	20
Income taxes, net	63	(78)
Accounts payable	(43)	74
Payables to affiliated companies	(24)	16
Other current liabilities	(6)	26
Other assets and deferred debits	25	(21)
Other liabilities and deferred credits	(17)	(26)
Net cash provided by operating activities	646	563
Investing activities		
Gross property additions	(402)	(331)
Nuclear fuel additions	(42)	(42)
Purchases of available-for-sale securities and other investments	(517)	(337)
Proceeds from available-for-sale securities and other investments	492	321
Changes in advances to affiliated companies	(75)	(39)
Other investing activities	—	(6)
Net cash used by investing activities	(544)	(434)
Financing activities		
Dividends paid on preferred stock	(1)	(1)
Dividends paid to parent	(200)	—
Net decrease in short-term debt	(110)	—
Proceeds from issuance of long-term debt, net	595	322
Retirement of long-term debt	(400)	(300)
Changes in advances from affiliated companies	—	(154)
Other financing activities	14	(3)
Net cash used by financing activities	(102)	(136)
Net decrease in cash and cash equivalents	—	(7)
Cash and cash equivalents at beginning of period	18	25
Cash and cash equivalents at end of period	\$18	\$18
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$128	\$80

See Notes to Progress Energy Carolinas, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
June 30, 2009

UNAUDITED CONDENSED STATEMENTS of INCOME

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2009	2008	2009	2008
Operating revenues	\$1,234	\$1,194	\$2,496	\$2,190
Operating expenses				
Fuel used in electric generation	443	373	955	714
Purchased power	200	258	360	441
Operation and maintenance	204	217	406	420
Depreciation, amortization and accretion	105	76	265	152
Taxes other than on income	80	76	168	147
Other	7	(4)	7	(4)
Total operating expenses	1,039	996	2,161	1,870
Operating income	195	198	335	320
Other income (expense)				
Interest income	—	1	1	2
Allowance for equity funds used during construction	29	22	59	40
Other, net	7	—	7	(1)
Total other income, net	36	23	67	41
Interest charges				
Interest charges	64	45	131	95
Allowance for borrowed funds used during construction	(9)	(6)	(18)	(12)
Total interest charges, net	55	39	113	83
Income before income tax	176	182	289	278
Income tax expense	57	57	81	86
Net income	119	125	208	192
Preferred stock dividend requirement	—	—	1	1
Net income available to common stockholders	\$119	\$125	\$207	\$191

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

UNAUDITED CONDENSED BALANCE SHEETS

(in millions)	June 30, 2009	December 31, 2008
ASSETS		
Utility plant		
Utility plant in service	\$11,401	\$10,449
Accumulated depreciation	(3,859)	(3,885)
Utility plant in service, net	7,542	6,564
Held for future use	35	35
Construction work in progress	1,574	2,085
Nuclear fuel, net of amortization	135	106
Total utility plant, net	9,286	8,790
Current assets		
Cash and cash equivalents	19	19
Receivables, net	426	362
Receivables from affiliated companies	7	15
Inventory	663	606
Regulatory assets	278	326
Derivative collateral posted	294	335
Prepayments and other current assets	155	139
Total current assets	1,842	1,802
Deferred debits and other assets		
Regulatory assets	1,376	1,324
Nuclear decommissioning trust funds	435	417
Miscellaneous other property and investments	41	37
Other assets and deferred debits	94	101
Total deferred debits and other assets	1,946	1,879
Total assets	\$13,074	\$12,471
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	\$1,430	\$1,116
Accumulated other comprehensive income (loss)	2	(1)
Retained earnings	2,491	2,284
Total common stock equity	3,923	3,399
Preferred stock	34	34
Long-term debt, net	3,882	4,182
Total capitalization	7,839	7,615
Current liabilities		
Current portion of long-term debt	300	—
Short-term debt	—	371
Notes payable to affiliated companies	478	72
Accounts payable	540	514
Payables to affiliated companies	48	55
Interest accrued	46	51
Customer deposits	200	200
Derivative liabilities	361	380
Other current liabilities	172	128
Total current liabilities	2,145	1,771
Deferred credits and other liabilities		
Noncurrent income tax liabilities	667	634
Accumulated deferred investment tax credits	9	12
Regulatory liabilities	1,077	1,076
Asset retirement obligations	360	349
Accrued pension and other benefits	495	494
Capital lease obligations	213	216
Derivative liabilities	184	209
Other liabilities and deferred credits	85	95
Total deferred credits and other liabilities	3,090	3,085
Commitments and contingencies (Notes 14 and 15)		
Total capitalization and liabilities	\$13,074	\$12,471

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

UNAUDITED CONDENSED STATEMENTS of CASH FLOWS

(in millions)		
Six months ended June 30	2009	2008
Operating activities		
Net income	\$208	\$192
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation, amortization and accretion	280	153
Deferred income taxes and investment tax credits, net	(41)	48
Deferred fuel cost (credit)	37	(196)
Allowance for equity funds used during construction	(59)	(40)
Other adjustments to net income	47	4
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(76)	(65)
Receivables from affiliated companies	8	—
Inventory	(58)	(85)
Prepayments and other current assets	45	(49)
Income taxes, net	16	34
Accounts payable	16	237
Payables to affiliated companies	(7)	(45)
Derivative collateral held	—	409
Other current liabilities	37	27
Other assets and deferred debits	15	(10)
Other liabilities and deferred credits	(23)	40
Net cash provided by operating activities	445	654
Investing activities		
Gross property additions	(770)	(921)
Nuclear fuel additions	(18)	(1)
Purchases of available-for-sale securities and other investments	(415)	(418)
Proceeds from available-for-sale securities and other investments	420	418
Changes in advances to affiliated companies	—	149
Proceeds from sales of assets to affiliated companies	—	10
Other investing activities	(4)	(2)
Net cash used by investing activities	(787)	(765)
Financing activities		
Dividends paid on preferred stock	(1)	(1)
Net decrease in short-term debt	(371)	—
Proceeds from issuance of long-term debt, net	—	1,476
Retirement of long-term debt	—	(82)
Changes in advances from affiliated companies	406	43
Contributions from parent	310	—
Other financing activities	(2)	—
Net cash provided by financing activities	342	1,436
Net increase in cash and cash equivalents	—	1,325
Cash and cash equivalents at beginning of period	19	23
Cash and cash equivalents at end of period	\$19	\$1,348
Supplemental disclosures		
Significant noncash transactions		
Accrued property additions	\$172	\$180

See Notes to Progress Energy Florida, Inc. Unaudited Condensed Interim Financial Statements.

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a/ PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

INDEX TO APPLICABLE COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS BY REGISTRANT

Each of the following combined notes to the unaudited condensed interim financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF. The notes that are not listed below for PEC or PEF are not, and shall not be deemed to be, part of PEC's or PEF's financial statements contained herein.

<u>Registrant</u>	<u>Applicable Notes</u>
PEC	1, 2, 4, 6, 8 through 11, and 13 through 15
PEF	1, 2, 4, 6, 8 through 11, and 13 through 15

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
COMBINED NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

In this report, Progress Energy, which includes Progress Energy, Inc. holding company (the Parent) and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as “we,” “us” or “our.” When discussing Progress Energy’s financial information, it necessarily includes the results of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (PEC) and Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) (collectively, the Utilities). The term “Progress Registrants” refers to each of the three separate registrants: Progress Energy, PEC and PEF. The information in these combined notes relates to each of the Progress Registrants as noted in the Index to the Combined Notes. However, neither of the Utilities makes any representation as to information related solely to Progress Energy or the subsidiaries of Progress Energy other than itself.

PROGRESS ENERGY

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity. The Corporate and Other segment primarily includes amounts applicable to the activities of the Parent and Progress Energy Service Company, LLC (PESC) and other miscellaneous nonregulated businesses that do not separately meet the quantitative disclosure requirements as a reportable business segment. See Note 12 for further information about our segments.

PEC

PEC is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. PEC’s subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC), Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF

PEF is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in west central Florida. PEF is subject to the regulatory provisions of the Florida Public Service Commission (FPSC), the NRC and the FERC.

B. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The December 31, 2008 condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. Because the accompanying interim financial statements do not include all of the information and footnotes required by GAAP for annual financial statements, they should be read in conjunction with the audited financial statements and notes thereto included in the Progress Registrants’ annual report on Form 10-K for the fiscal year ended December 31, 2008 (2008 Form 10-K). We have evaluated subsequent events through August 7, 2009, which is the date we issued our financial statements.

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis.

The amount of gross receipts tax, franchise taxes and other excise taxes included in electric operating revenues and taxes other than on income in the statements of income were as follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Progress Energy	\$77	\$72	\$156	\$136
PEC	26	25	52	49
PEF	51	47	104	87

The amounts included in these financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary to fairly present the Progress Registrants' financial position and results of operations for the interim periods. Unless otherwise noted, all adjustments are normal and recurring in nature. Due to seasonal weather variations, the impact of regulatory orders received, and the timing of outages of electric generating units, especially nuclear-fueled units, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year or future periods.

In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Certain amounts for 2008 have been reclassified to conform to the 2009 presentation.

C. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities (VIEs) for which we are the primary beneficiary. In general, we determine whether we are the primary beneficiary of a VIE through a qualitative analysis of risk that identifies which variable interest holder absorbs the majority of the financial risk and variability of the VIE. In performing this analysis, we consider all relevant facts and circumstances, including: the design and activities of the VIE, the terms of the contracts the VIE has entered into, the nature of the VIE's variable interests issued and how they were negotiated with or marketed to potential investors, and which parties participated significantly in the design or redesign of the entity. If the qualitative analysis is inconclusive, a specific quantitative analysis is performed. For purposes of the following disclosures, the maximum loss amounts represent the maximum exposure that would be absorbed by the Progress Registrants in the event that all of the assets of the VIE are deemed worthless, including any additional costs that the Progress Registrants would incur.

PROGRESS ENERGY

In addition to the following variable interests listed for PEC and PEF, Progress Energy, through its subsidiary Progress Fuels Corporation (Progress Fuels), is the primary beneficiary of, and consolidates, Ceredo Synfuel, LLC (Ceredo), a coal-based solid synthetic fuels production facility that qualified for federal tax credits under Section 45K of the Internal Revenue Code (the Code). See Note 1C in the 2008 Form 10-K for discussion of our variable interest in Ceredo and our disposal of Ceredo in 2007. There were no changes to our assessment of the primary beneficiary during 2008 or for the period ended June 30, 2009. No financial or other support has been provided to Ceredo during the periods presented. At June 30, 2009, we had no assets and \$20 million of liabilities related to the legal and tax indemnifications provided to the buyer included in other liabilities and deferred credits on the Consolidated Balance Sheets. The ultimate resolution of the indemnifications could result in adjustments to the gain on disposal in future periods. The creditors of Ceredo do not have recourse to the general credit of Progress Energy. See Note 3D for additional information on the disposal of Ceredo and Note 15B for a general discussion of guarantees.

PEC

VARIABLE INTEREST ENTITIES FOR WHICH PEC IS THE PRIMARY BENEFICIARY

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Code. PEC's variable interests are debt and equity investments in the two VIEs. PEC performed quantitative analyses to determine the primary beneficiaries of the two VIEs. The primary factors in the analyses were the estimated economic lives of the partnerships and their net cash flow projections, estimates of available tax credits, and the likelihood of default on debt and other commitments. There were no changes to PEC's assessment of the primary beneficiary during 2008 or for the period ended June 30, 2009. No financial or other support has been provided to the VIEs during the periods presented. At June 30, 2009, PEC had assets of \$39 million, substantially all of which were reflected in miscellaneous other property and investments, \$15 million in long-term debt, \$3 million in other liabilities and deferred credits and \$5 million in accounts payable on the Consolidated Balance Sheets related to the two VIEs. The assets of the two VIEs are collateral for, and can only be used to settle, their obligations. The creditors of these VIEs do not have recourse to the general credit of PEC and there are no other arrangements that could expose PEC to losses.

OTHER VARIABLE INTERESTS

PEC has an equity investment in, and consolidates, one limited partnership investment fund that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. The investment fund accounts for the 17 partnerships on the equity method of accounting. PEC also has an interest in one power plant resulting from long-term power purchase contracts. PEC's only significant exposure to variability from the power purchase contracts results from fluctuations in the market price of fuel used by the entity's plants to produce the power purchased by PEC. We are able to recover these fuel costs under PEC's fuel clause. The generation capacity of the entity's power plant is approximately 847 megawatts (MW). PEC has requested the necessary information to determine if the investment fund's 17 partnerships and the power plant owner are VIEs or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC, and, accordingly, PEC has applied the information scope exception provided by GAAP to the 17 partnerships and the power plant. PEC believes that if it is determined to be the primary beneficiary of these entities, the effect of consolidating the power plant and the investment fund consolidating the 17 partnerships would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparties, the impact cannot be determined at this time.

PEF

The following information is provided for PEF's significant variable interests in VIEs for which PEF is not the primary beneficiary:

PEF has a prepayment clause in a building capital lease with a special purpose entity that is a VIE. In accordance with the lease agreement, PEF is not required to make any lease payments over the last 20 years of the lease, during which period \$51 million of rental expense will be recorded in the PEF Statements of Income. The prepayment clause is PEF's only variable interest in the VIE and, therefore, PEF's exposure to loss primarily relates to the recovery of the prepayments through future use of the rental property. PEF performed qualitative and quantitative analyses and concluded that it is not the primary beneficiary of the VIE. The primary factors in the analyses were the lease term, the fact that the lease payments are not variable interests, the likelihood of construction and casualty risks to the building and the existence of insurance to offset those risks, and the estimated fair value of the building at the end of the lease term. There were no changes to PEF's assessment of the primary beneficiary during 2008 or for the period ended June 30, 2009. No financial or other support has been provided to the VIE during the periods presented. At June 30, 2009, PEF had a \$5 million prepayment included in other assets and deferred debits on the Balance Sheets. No liabilities associated with the prepayment clause were recorded. The aggregate maximum exposure to loss at June 30, 2009, is \$51 million, which represents the loss if the maximum prepayment of rent at the end of year 20 was not recovered through future use of the rental property or from third-party insurers at that time.

PEF has a residual value guarantee in an operating railcar lease agreement with a special purpose entity that is a VIE. The lease agreement has an early termination clause that permits PEF to terminate the lease in certain circumstances. If PEF terminates the lease in accordance with the agreement, it must sell the railcars and remit the

proceeds to the lessor plus any amount for which the residual value guarantee exceeds the realized value of the equipment. The residual value guarantee is PEF's primary variable interest in the VIE and, therefore, PEF's exposure to loss is from the potential decrease in the fair value of the railcars. PEF performed qualitative and quantitative analyses and concluded that it is not the primary beneficiary of the VIE. The primary factors in the analyses were the terms of the lease, the probability of exercising the early termination clause, and the estimated fair value of the railcars. There were no changes to PEF's assessment of the primary beneficiary during 2008 or for the period ended June 30, 2009. No financial or other support has been provided to the VIE during the periods presented. No liabilities associated with the residual value guarantee were recorded at June 30, 2009, because the early termination clause was not exercised. The aggregate maximum exposure to loss at June 30, 2009, is \$18 million, which represents the maximum loss if the early termination clause were exercised in 2009 and the related railcars were deemed worthless.

2. NEW ACCOUNTING STANDARDS

FSP FAS 157-2, "Effective Date of FASB Statement No. 157"

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 157-2, "Effective Date of FASB Statement No. 157" (FSP FAS 157-2), which for us and the Utilities delayed the effective date of SFAS No. 157, "Fair Value Measurements" (SFAS No. 157), for all nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The adoption of SFAS No. 157, including FSP FAS 157-2, did not have a material impact on our or the Utilities' financial position or results of operations. See Note 9B for information regarding fair value measurements under SFAS No. 157 and FSP FAS 157-2.

SFAS No. 141R, "Business Combinations"

In December 2007, the FASB issued SFAS Statement No. 141R, "Business Combinations" (SFAS No. 141R), which introduces significant changes in the accounting for business acquisitions. SFAS No. 141R considerably broadens the definition of a "business" and a "business combination," which should result in an increased number of transactions or other events that will qualify as business combinations. Other significant changes include the expensing of all acquisition-related transaction costs and most acquisition-related restructuring costs, the fair value remeasurement of certain earn-out arrangements and the discontinuance of the expense at acquisition of acquired-in-process research and development. SFAS No. 141R was effective for us for business combinations for which the acquisition date is on or after January 1, 2009. The adoption of SFAS No. 141R did not have any impact on our or the Utilities' financial position or results of operations.

SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51"

In conjunction with the issuance of SFAS No. 141R, in December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS No. 160), which introduces significant changes in the accounting for noncontrolling interests in a partially owned consolidated subsidiary. SFAS No. 160 was adopted concurrently with the effective date of SFAS No. 141R, which for us was January 1, 2009. See Note 6B for information regarding our first quarter 2009 implementation of SFAS No. 160. The adoption of SFAS No. 160 resulted in a change in presentation of the financial statements and additional disclosures but did not have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133"

On January 1, 2009, we implemented SFAS Statement No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133" (SFAS No. 161), which requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. See Note 11 for information regarding our first quarter 2009 implementation of SFAS No. 161. The adoption of SFAS No. 161 did not have a material impact on our or the Utilities' financial position or results of operations.

FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"

On January 1, 2009, we implemented FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (FSP EITF 03-6-1), which requires that certain unvested share-based payment awards (e.g. restricted stock) that contain nonforfeitable rights to dividends or dividend equivalents be included in the computation of earnings per share using the two-class method. FSP EITF 03-6-1 required a retrospective adjustment for all prior-period earnings per share data. The adoption of FSP EITF 03-6-1 did not have a material impact on our or the Utilities' financial position, results of operations or earnings per share amounts.

New FSPs for Fair Value Measurement and Disclosures and Other-Than-Temporary Impairments

In April 2009, the FASB issued three FSPs for guidance on accounting for fair value measurement and other-than-temporary impairments.

FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly," provides guidance on determining fair value when market activity has decreased for an asset or liability. FSP FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments," increases the frequency of fair value disclosures required by SFAS No. 107, "Disclosures of Fair Value of Financial Instruments," from annually to quarterly.

FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (FSP FAS 115-2), revises the recognition and reporting requirements for other-than-temporary impairments of debt securities and increases the frequency of disclosures for debt and equity securities. Under FSP FAS 115-2, if an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, an other-than-temporary impairment must be recognized currently in earnings equal to the difference between the investment's amortized cost and its fair value at the balance sheet date.

The three FSPs were effective for us during the three months ended June 30, 2009. The adoption of the three FSPs resulted in additional disclosures but did not have a material impact on our or the Utilities' financial position or results of operations. See Note 9 for the disclosures resulting from our second quarter 2009 implementation of the three FSPs.

SFAS No. 165, "Subsequent Events"

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events" (SFAS No. 165), which is applicable to the accounting for and disclosure of subsequent events not otherwise addressed in GAAP. SFAS No. 165 defines subsequent events as "events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued." For public entities, financial statements are considered "issued" when they are widely distributed to shareholders and other financial users for general use and reliance in a form and format that complies with GAAP. SFAS No. 165 is effective for us on June 30, 2009. The adoption of SFAS No. 165 requires the disclosure of the date through which subsequent events have been evaluated, as well as whether the date is the date the financial statements were issued or the date the financial statements were available to be issued. See Note 1 for the information regarding our implementation of SFAS No. 165.

FSP FAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets"

In December 2008, the FASB issued FSP FAS 132R-1, "Employers' Disclosures about Post Retirement Benefit Plan Assets" (FSP FAS 132R-1), which requires additional disclosures on the investment allocation decision making process, the fair value of each major category of plan assets and the inputs and valuation techniques used to remeasure the fair value of plan assets. FSP FAS 132R-1 is effective for us on December 31, 2009. The adoption of FSP FAS 132R-1 will change certain disclosures in the notes to the financial statements but we do not expect the adoption of FSP FAS 132R-1 to have a material impact on our or the Utilities' financial position or results of operations.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" (SFAS No. 166), which is a revision to SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS No. 166 eliminates the concept of a "qualifying special purpose entity", changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS No. 166 is effective for us January 1, 2010. Earlier application is prohibited. We do not expect the adoption of SFAS No. 166 to have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)"

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities" (SFAS No. 167), which makes significant changes to the model for determining who should consolidate a variable interest entity and addresses how often this assessment should be performed. SFAS No. 167 requires all existing arrangements to be evaluated, and must be adopted through a cumulative-effect adjustment. SFAS No. 167 is effective for us on January 1, 2010. We are currently evaluating the impact adoption may have on our or the Utilities' financial position, results of operations and cash flows.

3. **DIVESTITURES**

A. TERMINALS OPERATIONS AND SYNTHETIC FUELS BUSINESSES

On March 7, 2008, we sold coal terminals and docks in West Virginia and Kentucky (Terminals) for \$71 million in gross cash proceeds. The terminals had a total annual capacity in excess of 40 million tons for transloading, blending and storing coal and other commodities. Proceeds from the sale were used for general corporate purposes. During the six months ended June 30, 2008, we recorded an after-tax gain of \$41 million on the sale of these assets. The accompanying consolidated financial statements reflect the operations of Terminals as discontinued operations.

Prior to 2008, we had substantial operations associated with the production of coal-based solid synthetic fuels (Synthetic Fuels) as defined under Section 29 (Section 29) of the Code and as redesignated effective 2006 as Section 45K of the Code (Section 45K and collectively, Section 29/45K). The production and sale of these products qualified for federal income tax credits so long as certain requirements were satisfied. As a result of the expiration of the tax credit program, all of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007. The accompanying consolidated statements of income reflect the abandoned operations of our synthetic fuels businesses as discontinued operations.

Results of discontinued operations for the three and six months ended June 30 for Terminals and Synthetic Fuels were as follows:

(in millions)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenues	\$—	\$17
Earnings before income taxes and noncontrolling interest	1	11
Income tax benefit, including tax credits and tax levelization	8	12
Earnings attributable to noncontrolling interests of Synthetic Fuels	—	(1)
Net earnings from discontinued operations attributable to controlling interests	9	22
(Loss) gain on disposal of discontinued operations, including income tax expense of \$— and \$7	(4)	41
Earnings from discontinued operations attributable to controlling interests	\$5	\$63

B. COAL MINING BUSINESSES

On March 7, 2008, we sold the remaining operations of Progress Fuels subsidiaries engaged in the coal mining business (Coal Mining) for gross cash proceeds of \$23 million. Proceeds from the sale were used for general corporate purposes. These assets included Powell Mountain Coal Co. and Dulcimer Land Co., which consisted of about 30,000 acres in Lee County, Va. and Harlan County, Ky. As a result of the sale, during the six months ended June 30, 2008, we recorded an after-tax gain of \$7 million on the sale of these assets.

The accompanying consolidated financial statements reflect Coal Mining as discontinued operations. Results of Coal Mining discontinued operations for the three and six months ended June 30 were as follows:

(in millions)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenues	\$—	\$2
Gain (loss) before income taxes	1	(6)
Income tax benefit	1	2
Net gain (loss) from discontinued operations	2	(4)
Gain on disposal of discontinued operations, including income tax expense of \$2	—	7
Earnings from discontinued operations	\$2	\$3

C. OTHER DIVERSIFIED BUSINESSES

Also included in discontinued operations are amounts related to adjustments of our prior sales of other diversified businesses, primarily the Competitive Commercial Operations (CCO) in Georgia and Progress Rail Services Corporation. These adjustments are mainly due to the finalization of working capital and in connection with guarantees and indemnifications provided by Progress Fuels and Progress Energy for certain legal, tax and environmental matters (See Note 15B). The ultimate resolution of these matters could result in additional adjustments in future periods. For each of the three and six months ended June 30, 2009, we recorded additional losses of \$1 million, net of tax. For the three and six months ended June 30, 2008, we recorded additional losses of \$2 million and \$1 million, respectively, net of tax.

D. CEREDO SYNTHETIC FUELS INTERESTS

On March 30, 2007, our Progress Fuels subsidiary disposed of its 100 percent ownership interest in Ceredo, a subsidiary that produced and sold qualifying coal-based solid synthetic fuels, to a third-party buyer. In addition, we entered into an agreement to operate the Ceredo facility on behalf of the buyer. At closing, we received cash proceeds of \$10 million and a non-recourse note receivable of \$54 million. Payments on the note were due as we produced and sold qualifying synthetic fuels on behalf of the buyer. In accordance with the terms of the agreement, we received payments on the note related to 2007 production of \$49 million during the year ended December 31, 2007, and \$5 million during the six months ended June 30, 2008. The note had an interest rate equal to the three-month London Inter Bank Offering Rate (LIBOR) rate plus 1%. The estimated fair value of the note at the inception of the transaction was \$48 million. Under the terms of the agreement, the purchase price was reduced by \$7 million during the six months ended June 30, 2008, based on the final value of the 2007 Section 29/45K tax credits.

During the six months ended June 30, 2008, we recognized previously deferred gains on disposal of \$5 million based on the final value of the 2007 Section 29/45K tax credits. The operations of Ceredo ceased as of December 31, 2007, and are recorded as discontinued operations for all periods presented. See discussion of the abandonment of our synthetic fuels operations at Note 3A. In connection with the disposal, Progress Fuels and Progress Energy provided guarantees and indemnifications for certain legal and tax matters to the buyer. The ultimate resolution of these matters could result in adjustments to the loss on disposal in future periods. See general discussion of guarantees at Note 15B.

4. REGULATORY MATTERS

A. PEC RETAIL RATE MATTERS

FUEL COST RECOVERY

On May 7, 2009, PEC filed with the SCPSC for a decrease in the fuel rate charged to its South Carolina ratepayers. On May 28, 2009, PEC jointly filed a settlement agreement with the South Carolina Office of Regulatory Staff (ORS) and Nucor Steel. Under the terms of the settlement agreement, the parties agreed to PEC's proposed rate reduction of approximately \$13 million. A hearing on the matter was held by the SCPSC on June 11, 2009, and on June 19, 2009, the SCPSC approved the settlement agreement. The decrease is effective July 1, 2009, and decreases residential electric bills by \$2.08 per 1,000 kilowatt-hours (kWh), or 2.0 percent, for fuel cost recovery.

On June 4, 2009, PEC filed with the NCUC for a decrease in the fuel rate charged to its North Carolina ratepayers. PEC is asking the NCUC to approve a \$5 million decrease in the fuel rates driven by declining fuel prices. If approved, the decrease would take effect December 1, 2009, and would decrease residential electric bills by \$0.17 per 1,000 kWh, or 0.2 percent, for fuel cost recovery. A hearing on the matter has been scheduled by the NCUC for September 15, 2009. We cannot predict the outcome of this matter.

DEMAND-SIDE MANAGEMENT AND ENERGY-EFFICIENCY COST RECOVERY

See Note 7B in the 2008 Form 10-K for discussion of North Carolina's comprehensive energy legislation, which became law on August 20, 2007. As a result of the legislation, PEC has implemented a series of demand-side management (DSM) and energy-efficiency programs and will continue to pursue additional programs. These programs must be approved by the NCUC and we cannot predict the outcome of the DSM and energy-efficiency filings currently pending approval by the NCUC or whether the implemented programs will produce the expected operational and economic results.

On June 6, 2008, and as subsequently amended, PEC filed an application with the NCUC for approval of a DSM and energy-efficiency rider to recover all program costs, including the recovery of appropriate incentives for investing in such programs. On November 14, 2008, the NCUC issued an order allowing PEC to implement the rates requested in PEC's November 14, 2008 revision to its initial application. The new rates, subject to true-up to the final order, were implemented on December 1, 2008, increasing residential electrical bills by \$0.74 per 1,000 kWh, or 0.8 percent. On December 9, 2008, the North Carolina Public Staff filed an Agreement and Stipulation of Partial Settlement with PEC and some of the other parties to the proceedings. The NCUC held a hearing on the matter on January 7, 2009. On June 15, 2009, the NCUC issued an order approving the Agreement and Stipulation of Partial Settlement, subject to certain modifications. PEC estimates the year-to-date impact of these modifications to be immaterial. On July 13, 2009, PEC filed a motion asking the NCUC to reconsider certain provisions of the June 15, 2009 order and stay the requirements for PEC to revise its cost-recovery filings in accordance with the decisions approved in the order. On July 20, 2009, the NCUC issued an order requesting comments on the motion and allowed the motion for stay, pending a ruling on the motion for reconsideration, on a portion of PEC's request. Reply comments are due August 7, 2009. We cannot predict the outcome of this matter.

On June 4, 2009, PEC filed with the NCUC for a decrease in the DSM and energy-efficiency rate charged to its North Carolina ratepayers. PEC is asking the NCUC to approve a \$3 million decrease in the DSM and energy-efficiency rates. If approved, the decrease would take effect December 1, 2009, and would decrease residential electric bills by \$0.19 per 1,000 kWh, or 0.2 percent, for DSM and energy-efficiency cost recovery. A hearing on the matter has been scheduled by the NCUC for September 16, 2009. We cannot predict the outcome of this matter.

PEC filed a petition on November 30, 2007, with the SCPSC seeking authorization to create a deferred account for DSM and energy-efficiency expenses. On December 21, 2007, the SCPSC issued an order granting PEC's petition. On June 27, 2008, PEC filed an application with the SCPSC to establish procedures that encourage investment in cost-effective energy-efficient technologies and energy conservation programs and approve the establishment of an annual rider to allow recovery for all costs associated with such programs, as well as the recovery of appropriate incentives for investing in such programs. On January 23, 2009, PEC filed a Stipulation Agreement between PEC and some of the other parties to the proceeding. On May 6, 2009, the SCPSC approved the Stipulation Agreement and issued a directive requiring PEC to file for approval of all proposed DSM and energy-efficiency programs. On May 11, 2009, in accordance with the SCPSC directive, PEC filed its programs for approval and an application for a

cost-recovery rider for PEC's DSM and energy-efficiency programs. On June 10, 2009, SCPSC approved the proposed DSM and energy-efficiency programs and the cost-recovery rider application, on a provisional basis pending a review of the cost-recovery rider by the ORS. The rate increase was effective July 1, 2009, and increased residential electric bills by \$0.79 per 1,000 kWh or 0.8 percent, for DSM and energy-efficiency cost recovery. We cannot predict the outcome of this matter.

RENEWABLE ENERGY AND ENERGY EFFICIENCY PORTFOLIO STANDARD COST RECOVERY

On June 4, 2009, PEC filed with the NCUC for an increase in the Renewable Energy and Energy Efficiency Portfolio standard (NC REPS) rate charged to its North Carolina ratepayers. PEC is asking the NCUC to approve a \$6 million increase in the NC REPS rates. If approved, the increase would take effect December 1, 2009, and would increase residential electric bills by \$0.26 per month, or 0.2 percent, for REPS cost recovery. A hearing on the matter has been scheduled by the NCUC for September 16, 2009. We cannot predict the outcome of this matter.

B. PEF RETAIL RATE MATTERS

BASE RATE FILING

As a result of a base rate proceeding in 2005, PEF is party to a base rate settlement agreement that was effective with the first billing cycle of January 2006 and will remain in effect through the last billing cycle of December 2009.

On March 20, 2009, in anticipation of the expiration of its current base rate settlement agreement, PEF filed with the FPSC a proposal for an increase in base rates effective January 1, 2010. In its filing, PEF requested the FPSC to approve calendar year 2010 as the projected test period for setting new base rates and approve annual rate relief for PEF of \$499 million, which includes PEF's petition for a combined \$76 million of new base rates in 2009 as discussed below. The request for increased base rates is based, in part, on investments PEF is making in its generating fleet and in its transmission and distribution systems.

Included within the base rate proposal is a request for an interim base rate increase of \$13 million. Additionally, on March 20, 2009, PEF petitioned the FPSC for a limited proceeding to include in base rates revenue requirements of \$63 million for the repowered Bartow power plant, which began commercial operations in June 2009. On May 19, 2009, the FPSC approved both the annualized interim base rate increase and the cost recovery for the repowered Bartow power plant subject to refund with interest effective July 1, 2009. These increases are expected to result in additional revenues of approximately \$70 million in 2009. The changes increased residential bills by approximately \$4.52 per 1,000 kWh, or 3.7 percent. On July 2, 2009, Florida's Office of Public Counsel (OPC), the Florida Industrial Power Users Group, the Attorney General, the Florida Retail Federation and PCS Phosphate filed a petition protesting portions of the FPSC approval. A hearing on the matter will not be held until after the annual rate relief hearings are concluded. We cannot predict the outcome of this matter.

If PEF's remaining rate request is approved by the FPSC as filed by PEF, the new base rates would increase residential bills by approximately \$9.66 per 1,000 kWh, or 7.6 percent, effective January 1, 2010. The FPSC has scheduled hearings on the remaining annual rate relief filing beginning September 21, 2009. A ruling by the FPSC is expected in November 2009. We cannot predict the outcome of this matter.

FUEL COST RECOVERY

On March 17, 2009, PEF received approval from the FPSC to reduce its 2009 fuel cost-recovery factors by an amount sufficient to achieve a \$206 million reduction in fuel charges to retail customers as a result of effective fuel purchasing strategies and lower fuel prices. The approval reduces residential customers' fuel charges by \$6.90 per 1,000 kWh, or 5.0 percent, starting with the first billing cycle of April 2009. Commercial and industrial customers will see similar reductions.

In 2006, OPC filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers \$135 million, plus interest, of alleged excessive past fuel recovery charges and sulfur dioxide (SO₂) allowance costs during the period 1996 to 2005. The OPC claimed that although Crystal River Unit 4 and Crystal River Unit 5 (CR4 and CR5) were designed to burn a blend of coals, PEF failed to act to lower ratepayers' costs by purchasing the most economical blends of coal. During the period specified in the petition, PEF's costs recovered through fuel recovery clauses were annually reviewed for prudence and approval by the FPSC. On October 10, 2007, the FPSC issued its order rejecting most of the OPC's contentions. However, the FPSC found that PEF had not been prudent in

purchasing a portion of its coal requirements during the period from 2003 to 2005. Accordingly, the FPSC ordered PEF to refund its ratepayers \$14 million, inclusive of interest, over a 12-month period beginning January 1, 2008. The refund was returned to ratepayers through a reduction of prior year under-recovered fuel costs. The FPSC also ordered PEF to address whether it was prudent in its 2006 and 2007 coal purchases for CR4 and CR5. On October 4, 2007, PEF filed a motion to establish a separate docket on the prudence of its coal purchases for CR4 and CR5 for the years 2006 and 2007. On October 17, 2007, the FPSC granted that motion. On February 2, 2009, the OPC filed direct testimony in this hearing alleging that during 2006 and 2007, PEF collected excessive fuel costs and SO₂ allowance costs of \$61 million before interest. The OPC claimed that these excessive costs were attributed to PEF's ongoing practice of not blending the most economical sources of coal at its CR4 and CR5 plants. A hearing on PEF's 2006 and 2007 coal purchases was held April 13-15, 2009. During the hearing, the OPC reduced the alleged excessive fuel costs to \$33 million before interest. On June 30, 2009, the FPSC approved a refund of \$8 million to PEF's ratepayers to be paid over a 12-month period beginning January 1, 2010, and ordered PEF to file a report by September 2009 regarding the prospective application of PEF's coal procurement plan and the prudence of PEF's coal procurement actions. For the three months ended June 30, 2009, PEF recorded a pre-tax other operating expense of \$8 million plus an immaterial amount of interest and an associated regulatory liability for the disallowed fuel costs and interest. PEF is evaluating its options, including a request for reconsideration and an appeal of the FPSC's order to the Florida Supreme Court. We cannot predict the outcome of this matter.

NUCLEAR COST RECOVERY

On March 17, 2009, PEF received approval from the FPSC to defer until 2010 the recovery of \$198 million of nuclear pre-construction costs for PEF's proposed nuclear plant in Levy County, Florida (Levy), which the FPSC had authorized to be collected in 2009. The approval reduced residential customers' nuclear cost-recovery charge by \$7.80 per 1,000 kWh, or 5.7 percent, starting with the first billing cycle of April 2009. Commercial and industrial customers experienced similar reductions.

On May 1, 2009, pursuant to the FPSC nuclear cost-recovery rule, PEF filed a petition to recover \$446 million, which consists of pre-construction and carrying costs incurred or anticipated to be incurred during 2009 and the projected 2010 costs associated with the Levy and Crystal River Unit 3 (CR3) uprate projects. In an effort to help mitigate the initial price impact on its customers, as part of its filing, PEF has proposed collecting certain costs over a five-year period, with associated carrying costs. The deferral would result in a nuclear cost-recovery charge of \$6.69 per 1,000 kWh for residential customers, which is approximately half of the amount PEF is eligible to recover in 2010 under the nuclear cost-recovery rule. If approved, the charges would begin with the first billing cycle of January 2010. The FPSC has scheduled hearings in this matter beginning September 8, 2009, with a decision expected in October 2009. We cannot predict the outcome of this matter.

OTHER MATTERS

On March 20, 2009, PEF filed a petition with the FPSC for expedited approval of the deferral of \$53 million in 2009 pension expense and the authorization to charge \$33 million in estimated 2009 storm hardening expenses to its storm damage reserve. PEF requested that the deferral of pension expense continue until the recovery of these costs is provided for in FPSC-approved base rates. On June 16, 2009, the FPSC denied PEF's request related to the storm hardening expenses, but approved the deferral of the retail portion of actual 2009 pension expense. As a result of the order, during the three months ended June 30, 2009, PEF deferred \$16 million of pension expense that had been recognized year to date and established a deferred pension regulatory asset. PEF will not earn a carrying charge on the deferred pension regulatory asset. The retail portion of subsequent pension expense will be deferred as incurred during the remainder of 2009. The deferral of pension expense will not result in a change in PEF's 2009 retail rates or prices. In accordance with the order, subsequent to 2009 PEF will amortize the deferred pension regulatory asset to the extent that annual pension expense is less than the allowance provided for in the base rates established in the 2010 base rate proceeding. In the event such amortization is insufficient to fully amortize the regulatory asset, PEF can seek recovery of the remaining unamortized amount in a base rate proceeding no earlier than 2015.

C. OTHER RATE MATTERS

On May 15, 2009 and May 29, 2009, PEC and PEF filed updates to their Open Access Transmission Tariffs (OATT) with the FERC. For PEC, the updates increased the transmission rate charged to wholesale customers by 18 percent effective June 1, 2009, and by an additional 1 percent effective August 1, 2009. The impact to PEC's 2009 revenue is expected to be an increase of \$4 million. For PEF, the updates increased the transmission rate charged to

wholesale customers by 11 percent, effective June 1. The impact to PEF's 2009 revenue is expected to be an increase of \$2 million. The rates are subject to wholesale customers filing a formal challenge with the FERC. Any challenge could result in a refund or adjustment. We cannot predict the outcome of this matter.

5. GOODWILL

Goodwill is required to be tested for impairment at least annually and more frequently when indicators of impairment exist. All of our goodwill is allocated to our utility segments and our goodwill impairment tests are performed at the utility segment level. The carrying amounts of goodwill at June 30, 2009 and December 31, 2008, for reportable segments PEC and PEF, were \$1.922 billion and \$1.733 billion, respectively. The amounts assigned to PEC and PEF are recorded in our Corporate and Other business segment. We perform our annual impairment tests as of April 1 each year. During the second quarter of 2009, we completed the 2009 annual tests, which indicated the goodwill was not impaired.

6. EQUITY AND COMPREHENSIVE INCOME

A. EARNINGS PER COMMON SHARE

A reconciliation of our weighted-average number of common shares outstanding for basic and dilutive earnings per share purposes follows:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted-average common shares – basic	280	261	278	261
Net effect of dilutive stock-based compensation plans	—	—	—	—
Weighted-average shares – fully dilutive	280	261	278	261

B. RECONCILIATION OF TOTAL EQUITY

PROGRESS ENERGY

The consolidated financial statements include the accounts of Progress Energy and its majority owned subsidiaries. Noncontrolling interests principally represent minority shareholders' proportionate share of the equity of our subsidiary, Progress Telecom Holdings LLC and several variable interest entities (see Note 1C).

The following table presents changes in total equity for the year to date:

(in millions)	Total Common Stock Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2008	\$8,687	\$6	\$8,693
Net income (loss) ^(a)	356	(1)	355
Other comprehensive income	20	—	20
Comprehensive income			375
Issuance of shares through offerings and stock-based compensation plans (See Note 6D)	582	—	582
Dividends paid and declared	(356)	—	(356)
Distributions to noncontrolling interest	—	(1)	(1)
Other transactions	—	2	2
Balance, June 30, 2009	\$9,289	\$6	\$9,295

^(a) Consolidated net income of \$357 million includes \$2 million attributable to preferred shareholders of subsidiaries, which is not a component of total equity and is excluded from the table above.

(in millions)	Total Common Stock Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2007	\$8,395	\$84	\$8,479
Net income	414	5	419
Other comprehensive income	6	—	6
Comprehensive income			425
Issuance of shares through offerings and stock-based compensation plans (See Note 6D)	85	—	85
Dividends paid and declared	(321)	—	(321)
Contributions from noncontrolling interest	—	2	2
Distributions to noncontrolling interest	—	(85)	(85)
Balance, June 30, 2008	\$8,579	\$6	\$8,585

PEC

The consolidated financial statements include the accounts of PEC and its majority owned subsidiaries. Noncontrolling interests principally represent minority shareholders' proportionate share of the equity of several variable interest entities (see Note 1C).

The following table presents changes in total equity for the year to date:

(in millions)	Total Common Stock Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2008	\$4,301	\$4	\$4,305
Net income (loss)	223	(1)	222
Other comprehensive income	4	—	4
Comprehensive income			226
Issuance of shares through stock-based compensation plans	29	—	29
Dividends paid to parent	(200)	—	(200)
Preferred stock dividends at stated rate	(1)	—	(1)
Tax benefit dividend	(2)	—	(2)
Balance, June 30, 2009	\$4,354	\$3	\$4,357

(in millions)	Total Common Stock Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2007	\$3,752	\$4	\$3,756
Net income	227	—	227
Other comprehensive loss	(5)	—	(5)
Comprehensive income			222
Issuance of shares through stock-based compensation plans	35	—	35
Preferred stock dividends at stated rate	(1)	—	(1)
Tax benefit dividend	(1)	—	(1)
Balance, June 30, 2008	\$4,007	\$4	\$4,011

PEF

Interim disclosures of changes in equity are required if the reporting entity has less than wholly-owned subsidiaries, of which PEF has none. Therefore, an equity reconciliation for PEF has not been provided.

C. COMPREHENSIVE INCOME

Progress Energy

(in millions)	Three Months Ended June 30,	
	2009	2008
Net income	\$174	\$205
Other comprehensive income		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1)	2	—
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$1 and \$-, respectively)	1	1
Net unrealized gains on cash flow hedges (net of tax expense of \$5 and \$8, respectively)	8	13
Other comprehensive income	11	14
Comprehensive income	185	219
Comprehensive income attributable to controlling interests	\$185	\$219

(in millions)	Six Months Ended June 30,	
	2009	2008
Net income	\$357	\$419
Other comprehensive income		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$2 and \$1, respectively)	3	1
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$1 and \$-, respectively)	2	1
Net unrealized gains on cash flow hedges (net of tax expense of \$9 and \$2, respectively)	14	4
Other (net of tax expense of \$-)	1	—
Other comprehensive income	20	6
Comprehensive income	377	425
Comprehensive income attributable to noncontrolling interests, net of tax	(1)	(5)
Comprehensive income attributable to controlling interests	\$376	\$420

PEC

	Three Months Ended June 30,	
(in millions)	2009	2008
Net income	\$94	\$104
Other comprehensive income		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1)	2	—
Net unrealized gains on cash flow hedges (net of tax expense of \$2)	2	—
Other comprehensive income	4	—
Comprehensive income	98	104
Comprehensive loss attributable to noncontrolling interests, net of tax	1	—
Comprehensive income attributable to controlling interests	\$99	\$104

	Six Months Ended June 30,	
(in millions)	2009	2008
Net income	\$222	\$227
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1)	2	—
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of \$(2) and \$3, respectively)	2	(5)
Other comprehensive income (loss)	4	(5)
Comprehensive income	226	222
Comprehensive loss attributable to noncontrolling interests, net of tax	1	—
Comprehensive income attributable to controlling interests	\$227	\$222

PEF

	Three Months Ended June 30,	
(in millions)	2009	2008
Net income	\$119	\$125
Other comprehensive income		
Net unrealized gains on cash flow hedges (net of tax expense of \$2 and \$8, respectively)	3	12
Other comprehensive income	3	12
Comprehensive income	\$122	\$137

	Six Months Ended June 30,	
(in millions)	2009	2008
Net income	\$208	\$192
Other comprehensive income		
Net unrealized gains on cash flow hedges (net of tax expense of \$2 and \$5, respectively)	3	8
Other comprehensive income	3	8
Comprehensive income	\$211	\$200

D. COMMON STOCK

At December 31, 2008, we had 500 million shares of common stock authorized under our charter, of which approximately 264 million were outstanding. For the three months ended June 30, 2009, we issued an immaterial number of shares of common stock. For the six months ended June 30, 2009, we issued approximately 15.5 million shares of common stock resulting in approximately \$545 million in net proceeds. Included in these amounts were approximately 0.6 million shares for net proceeds of approximately \$22 million to meet the requirements of the Progress Energy 401(k) Savings & Stock Ownership Plan (401(k)) and the Investor Plus Stock Purchase Plan. For the three and six months ended June 30, 2008, respectively, we issued approximately 0.5 million shares and 1.5 million shares of common stock resulting in approximately \$22 million and \$42 million in proceeds. Included in these amounts were approximately 0.5 million shares and 0.9 million shares for proceeds of approximately \$22 million and \$41 million, respectively, to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan.

The 15.5 million shares issued during the six months ended June 30, 2009, also included the Parent's issuance of 14.4 million shares of common stock at a public offering price of \$37.50 per share on January 12, 2009. Net proceeds from this offering were approximately \$523 million. We used \$100 million of the proceeds to reduce the Parent's revolving credit agreement (RCA) borrowings and the remainder was used for general corporate purposes.

7. PREFERRED STOCK OF SUBSIDIARIES

As discussed in Note 10 in the 2008 Form 10-K, all of our preferred stock was issued by the Utilities. The preferred stock is considered temporary equity due to certain provisions that could require us to redeem the preferred stock for cash. In the event of a default by PEC or PEF equivalent to the payment of four quarterly dividends on the preferred stock, the holders of the preferred stock are entitled to elect a majority of PEC or PEF's respective Board of Directors until all accrued and unpaid dividends are paid. All classes of preferred stock are entitled to cumulative dividends with preference to the common stock dividends, are redeemable by vote of the Utilities' respective Board of Directors at any time, and do not have any preemptive rights. All classes of preferred stock have a liquidation preference equal to \$100 per share plus any accumulated unpaid dividends except for PEF's 4.75%, \$100 par value class, which does not have a liquidation preference. Each holder of PEC's preferred stock is entitled to one vote. Each holder of PEF's preferred stock has no right to vote except for certain circumstances regarding dividends payable on preferred stock in default or potential changes to the preferred stock's rights and preferences.

8. DEBT AND CREDIT FACILITIES

Material changes, if any, to Progress Energy's, PEC's and PEF's debt and credit facilities and financing activities since December 31, 2008, are as follows.

On January 15, 2009, PEC issued \$600 million of First Mortgage Bonds, 5.30% Series due 2019. A portion of the proceeds was used to repay the maturity of PEC's \$400 million 5.95% Senior Notes, due March 1, 2009. The remaining proceeds were used to repay PEC's outstanding short-term debt and for general corporate purposes.

On February 3, 2009, the Parent repaid \$100 million of the \$600 million outstanding balance at December 31, 2008, borrowed under its RCA with proceeds from its 14.4 million share common stock issuance discussed in Note 6D. Subsequent to June 30, 2009, the Parent repaid an additional \$200 million of the outstanding balance with cash on hand. At August 7, 2009, the outstanding balance of the RCA loan was \$300 million. We will continue to monitor the commercial paper and short-term credit markets to determine when to repay the remaining outstanding balance of the RCA loan, while maintaining an appropriate level of liquidity.

On March 19, 2009, the Parent issued an aggregate \$750 million of Senior Notes consisting of \$300 million of 6.05% Senior Notes due 2014 and \$450 million of 7.05% Senior Notes due 2019. A portion of the proceeds was used to fund PEF's capital expenditures through an equity contribution with the remaining proceeds used for general corporate purposes.

On June 18, 2009, PEC entered into a Seventy-seventh Supplemental Indenture to its Mortgage and Deed of Trust, dated May 1, 1940, as supplemented, in connection with certain amendments to the mortgage. The amendments are

set forth in the Seventy-seventh Supplemental Indenture and include an amendment to extend the maturity date of the mortgage by 100 years. The maturity date of the mortgage is now May 1, 2140.

9. FAIR VALUE DISCLOSURES

A. DEBT AND INVESTMENTS

PROGRESS ENERGY

DEBT

The carrying amount of our long-term debt, including current maturities, was \$11.506 billion and \$10.659 billion at June 30, 2009 and December 31, 2008, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$12.3 billion and \$11.3 billion at June 30, 2009 and December 31, 2008, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. Our available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning the Utilities' nuclear plants as discussed in Note 4D of the 2008 Form 10-K. Nuclear decommissioning trust (NDT) funds are presented on the Consolidated Balance Sheets at fair value. In addition to the NDT funds, we hold other debt and equity investments classified as available-for-sale, which are included in miscellaneous other property and investments on the Consolidated Balance Sheets at fair value.

The following table summarizes our available-for-sale securities at June 30, 2009 and December 31, 2008.

June 30, 2009 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(47)	\$175	\$678
Debt securities	(9)	13	422
Cash equivalents	—	—	104
Total	\$(56)	\$188	\$1,204

December 31, 2008 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(93)	\$134	\$559
Debt securities	(27)	15	466
Cash equivalents	—	—	114
Total	\$(120)	\$149	\$1,139

The NDT funds and other available-for-sale debt and equity investments held in certain benefit trusts are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments; \$55 million of the unrealized losses and \$187 million of the unrealized gains at June 30, 2009, and \$118 million of the unrealized losses and \$148 million of the unrealized gains at December 31, 2008, relate to the NDT funds. There were no material unrealized losses for the other available-for-sale debt and equity securities held in benefit trusts as of June 30, 2009 and December 31, 2008.

The aggregate fair value of investments with unrealized losses at June 30, 2009 and December 31, 2008 was \$266 million and \$374 million, respectively.

At June 30, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$29
Due after one through five years	191
Due after five through 10 years	118
Due after 10 years	84
Total	\$422

The following table presents selected information about our sales of available-for-sale securities during the three and six months ended June 30, 2009. Proceeds were primarily related to the NDT funds. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Proceeds	\$216	\$871
Realized gains	3	15
Realized losses	(22)	(74)

PEC

DEBT

The carrying amount of PEC's long-term debt, including current maturities, was \$3.709 billion and \$3.509 billion at June 30, 2009 and December 31, 2008, respectively. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$3.9 billion and \$3.7 billion at June 30, 2009 and December 31, 2008, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEC's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEC's nuclear plants as discussed in Note 4D of the 2008 Form 10-K. NDT funds are presented on the Consolidated Balance Sheets at fair value. In addition to the NDT funds, PEC holds other debt and equity investments classified as available-for-sale, which are included in miscellaneous other property and investments on the Consolidated Balance Sheets at fair value.

The following table summarizes PEC's available-for-sale securities at June 30, 2009 and December 31, 2008.

June 30, 2009 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(35)	\$105	\$441
Debt securities	(3)	10	277
Cash equivalents	—	—	14
Total	\$(38)	\$115	\$732

December 31, 2008 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(55)	\$75	\$334
Debt securities	(10)	11	250
Cash equivalents	—	—	105
Total	\$(65)	\$86	\$689

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses of the NDT funds that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments; all of the unrealized losses and gains at June 30, 2009 and December 31, 2008, relate to the NDT funds.

The aggregate fair value of investments with unrealized losses at June 30, 2009 and December 31, 2008, was \$174 million and \$191 million, respectively.

At June 30, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$4
Due after one through five years	155
Due after five through 10 years	79
Due after 10 years	39
Total	\$277

The following table presents selected information about PEC's sales of available-for-sale securities during the three and six months ended June 30, 2009. Proceeds were primarily related to the NDT funds. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Proceeds	\$78	\$466
Realized gains	1	5
Realized losses	(9)	(30)

PEF

DEBT

The carrying amount of PEF's long-term debt, including current maturities, was \$4.182 billion at June 30, 2009 and December 31, 2008. The estimated fair value of this debt, as obtained from quoted market prices for the same or similar issues, was \$4.4 billion and \$4.5 billion at June 30, 2009 and December 31, 2008, respectively.

INVESTMENTS

Certain investments in debt and equity securities that have readily determinable market values are accounted for as available-for-sale securities at fair value. PEF's available-for-sale securities include investments in stocks, bonds and cash equivalents held in trust funds, pursuant to NRC requirements, to fund certain costs of decommissioning PEF's nuclear plant as discussed in Note 4D of the 2008 Form 10-K. The NDT funds are presented on the Balance Sheets at fair value.

The following table summarizes PEF's available-for-sale securities at June 30, 2009 and December 31, 2008.

June 30, 2009 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(12)	\$70	\$237
Debt securities	(5)	2	106
Cash equivalents	—	—	89
Total	\$(17)	\$72	\$432

December 31, 2008 (in millions)	Unrealized Losses	Unrealized Gains	Fair Value
Equity securities	\$(38)	\$59	\$225
Debt securities	(15)	3	177
Cash equivalents	—	—	9
Total	\$(53)	\$62	\$411

The NDT funds are managed by third-party investment managers who have a right to sell securities without our authorization. Net unrealized gains and losses that would be recorded in earnings or other comprehensive income by a nonregulated entity are recorded as regulatory assets and liabilities pursuant to ratemaking treatment. Therefore, the preceding tables include the unrealized gains and losses for the NDT funds based on the original cost of the trust investments; all of the unrealized losses and gains at June 30, 2009 and December 31, 2008, relate to the NDT funds.

The aggregate fair value of investments with unrealized losses at June 30, 2009 and December 31, 2008 was \$78 million and \$165 million, respectively.

At June 30, 2009, the fair value of available-for-sale debt securities by contractual maturity was:

(in millions)	
Due in one year or less	\$24
Due after one through five years	33
Due after five through 10 years	29
Due after 10 years	20
Total	\$106

The following table presents selected information about PEF's sales of available-for-sale securities during the three and six months ended June 30, 2009. Proceeds from the sale of securities primarily related to the NDT funds. Realized gains and losses were determined on a specific identification basis.

(in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Proceeds	\$119	\$365
Realized gains	2	9
Realized losses	(13)	(44)

B. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). A mid-market pricing convention (the mid-point price between bid and ask prices) is permitted for use as a practical expedient and requires the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be

readily observable, corroborated by market data, or generally unobservable. Valuation techniques are required to maximize the use of observable inputs and minimize the use of unobservable inputs.

A fair value hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs has been established. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy are as follows:

Level 1 – The pricing inputs are unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 – The pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards, swaps and options, certain marketable debt securities, and financial instruments traded in less than active markets.

Level 3 – The pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments may include longer-term instruments that extend into periods where quoted prices or other observable inputs are not available.

The following tables set forth by level within the fair value hierarchy our and the Utilities' financial assets and liabilities that were accounted for at fair value on a recurring basis at June 30, 2009. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

<i>Progress Energy</i>				
(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust funds				
Equity	\$678	\$–	\$–	\$678
Corporate debt	–	61	–	61
U.S. state and municipal debt	–	137	–	137
U.S. Treasury and other U.S. government agency debt	68	196	–	264
Money market funds and other	1	19	–	20
Total nuclear decommissioning trust funds	747	413	–	1,160
Commodity and interest rate derivatives	–	26	3	29
Other marketable securities	24	39	–	63
Total assets	\$771	\$478	\$3	\$1,252
Liabilities:				
Commodity and interest rate derivatives	\$–	\$(613)	\$(34)	\$(647)
CVO derivatives	–	(26)	–	(26)
Total liabilities	\$–	\$(639)	\$(34)	\$(673)

PEC

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust funds				
Equity	\$441	\$—	\$—	\$441
Corporate debt	—	59	—	59
U.S. state and municipal debt	—	34	—	34
U.S. Treasury and other U.S. government agency debt	68	107	—	175
Money market funds and other	1	15	—	16
Total nuclear decommissioning trust funds	510	215	—	725
Commodity and interest rate derivatives	—	5	1	6
Other marketable securities	5	—	—	5
Total assets	\$515	\$220	\$1	\$736
Liabilities:				
Commodity and interest rate derivatives	\$—	\$(82)	\$(20)	\$(102)

PEF

(in millions)	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust funds				
Equity	\$237	\$—	\$—	\$237
Corporate debt	—	3	—	3
U.S. state and municipal debt	—	103	—	103
U.S. Treasury and other U.S. government agency debt	—	89	—	89
Money market funds and other	—	3	—	3
Total nuclear decommissioning trust funds	237	198	—	435
Commodity and interest rate derivatives	—	17	2	19
Other marketable securities	2	—	—	2
Total assets	\$239	\$215	\$2	\$456
Liabilities:				
Commodity and interest rate derivatives	\$—	\$(531)	\$(14)	\$(545)

The determination of the fair values above incorporates various factors, including risks of nonperformance by us or our counterparties. Such risks consider not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits or letters of credit), but also the impact of our and the Utilities' credit risk on our liabilities.

Commodity and interest rate derivatives reflect positions held by us and the Utilities. Most over-the-counter commodity and interest rate derivatives are valued using financial models which utilize observable inputs for similar instruments and are classified within Level 2. Other derivatives are valued utilizing inputs that are not observable for substantially the full term of the contract, or for which the impact of the unobservable period is significant to the fair value of the derivative. Such derivatives are classified within Level 3. See Note 11 for discussion of risk management activities and derivative transactions.

NDT funds reflect the assets of the Utilities' nuclear decommissioning trusts, as discussed in Note 13 of the 2008 Form 10-K. The assets of the trusts are invested primarily in exchange-traded equity securities (classified within Level 1) and marketable debt securities, most of which are valued using Level 1 inputs for similar instruments, and are classified within Level 2.

Other marketable securities represent available-for-sale debt and equity securities used to fund certain employee benefit costs.

We issued Contingent Value Obligations (CVOs) in connection with the acquisition of Florida Progress Corporation (Florida Progress), as discussed in Note 15 in the 2008 Form 10-K. The CVOs are derivatives recorded at fair value based on quoted prices from a less than active market and are classified as Level 2.

The following tables set forth a reconciliation of changes in the fair value of our and the Utilities' commodity derivatives classified as Level 3 in the fair value hierarchy for the three and six months ended June 30.

Progress Energy

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Derivatives, net at beginning of period	\$(43)	\$55	\$(41)	\$26
Total gains (losses), realized and unrealized:				
Included in earnings	—	—	—	—
Included in other comprehensive income	—	—	—	—
Deferred as regulatory assets and liabilities, net	12	108	10	137
Purchases, issuances and settlements, net	—	—	—	—
Transfers in (out) of Level 3, net	—	—	—	—
Derivatives, net at end of period	\$(31)	\$163	\$(31)	\$163

PEC

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Derivatives, net at beginning of period	\$(23)	\$12	\$(22)	\$6
Total gains (losses), realized and unrealized:				
Included in earnings	—	—	—	—
Included in other comprehensive income	—	—	—	—
Deferred as regulatory assets and liabilities, net	4	24	3	30
Purchases, issuances and settlements, net	—	—	—	—
Transfers in (out) of Level 3, net	—	—	—	—
Derivatives, net at end of period	\$(19)	\$36	\$(19)	\$36

PEF

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Derivatives, net at beginning of period	\$(20)	\$43	\$(19)	\$20
Total gains (losses), realized and unrealized:				
Included in earnings	—	—	—	—
Included in other comprehensive income	—	—	—	—
Deferred as regulatory assets and liabilities, net	8	84	7	107
Purchases, issuances and settlements, net	—	—	—	—
Transfers in (out) of Level 3, net	—	—	—	—
Derivatives, net at end of period	\$(12)	\$127	\$(12)	\$127

Substantially all unrealized gains and losses on commodity derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment.

Transfers in (out) of Level 3 represent existing assets or liabilities that were either previously categorized as a higher level for which the inputs to the model became unobservable or assets and liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period. There were no transfers into or out of Level 3 during the periods ended June 30, 2009 and 2008.

10. BENEFIT PLANS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria.

The components of the net periodic benefit cost for the respective Progress Registrants for the three and six months ended June 30 were:

Progress Energy

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30,			
	2009	2008	2009	2008
Service cost	\$10	\$12	\$2	\$2
Interest cost	34	31	9	8
Expected return on plan assets	(35)	(41)	(1)	(2)
Amortization of actuarial loss ^(a)	12	3	1	1
Other amortization, net ^(a)	2	—	1	1
Net periodic cost	\$23	\$5	\$12	\$10

(in millions)	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30,			
	2009	2008	2009	2008
Service cost	\$21	\$24	\$4	\$4
Interest cost	68	62	18	16
Expected return on plan assets	(69)	(82)	(3)	(3)
Amortization of actuarial loss ^(a)	24	5	2	1
Other amortization, net ^(a)	3	1	3	2
Net periodic cost	\$47	\$10	\$24	\$20

^(a) Adjusted to reflect PEF's rate treatment. See Note 16B in the 2008 Form 10-K.

PEC

	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30			
(in millions)	2009	2008	2009	2008
Service cost	\$4	\$6	\$1	\$1
Interest cost	16	14	5	4
Expected return on plan assets	(17)	(16)	(1)	(1)
Amortization of actuarial loss	2	2	1	—
Other amortization, net	1	—	—	—
Net periodic cost	\$6	\$6	\$6	\$4

	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30			
(in millions)	2009	2008	2009	2008
Service cost	\$8	\$12	\$3	\$2
Interest cost	31	28	9	8
Expected return on plan assets	(34)	(32)	(2)	(2)
Amortization of actuarial loss	4	4	1	—
Other amortization, net	3	1	1	1
Net periodic cost	\$12	\$13	\$12	\$9

PEF

	Pension Benefits		Other Postretirement Benefits	
	Three months ended June 30			
(in millions)	2009	2008	2009	2008
Service cost	\$5	\$4	\$1	\$1
Interest cost	14	13	3	3
Expected return on plan assets	(15)	(21)	—	—
Amortization of actuarial loss	9	—	—	—
Other amortization, net	—	—	1	1
Net periodic cost (benefit)	\$13	\$(4)	\$5	\$5

	Pension Benefits		Other Postretirement Benefits	
	Six months ended June 30			
(in millions)	2009	2008	2009	2008
Service cost	\$9	\$9	\$1	\$1
Interest cost	28	26	7	7
Expected return on plan assets	(29)	(44)	(1)	(1)
Amortization of actuarial loss	18	—	1	1
Other amortization, net	—	—	2	2
Net periodic cost (benefit)	\$26	\$ (9)	\$10	\$10

On June 16, 2009, PEF received permission from the FPSC to defer the retail portion of pension expense incurred in 2009. The FPSC order does not change the total net periodic pension cost presented above, but defers a portion of those costs to be recovered in future periods. For the three and six months ended June 30, 2009, PEF deferred \$16 million of net periodic pension cost as a regulatory asset (See Note 4B).

In 2009, contributions directly to pension plan assets are expected to approximate \$220 million for us, \$170 million for PEC and \$50 million for PEF. An immaterial amount was contributed during the three and six months ended June 30, 2009.

11. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit and financial reviews using a combination of financial analysis and publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

A. COMMODITY DERIVATIVES

GENERAL

Most of our physical commodity contracts are not derivatives or qualify as normal purchases or sales. Therefore, such contracts are not recorded at fair value.

ECONOMIC DERIVATIVES

Derivative products, primarily natural gas and oil contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored consistent with trading positions.

The Utilities have derivative instruments related to their exposure to price fluctuations on fuel oil and natural gas purchases. Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets, respectively, on the Balance Sheets until the contracts are settled. After settlement of the derivatives and the fuel is consumed, any realized gains or losses are passed through the fuel cost-recovery clause.

Certain hedge agreements may result in the receipt of, or posting of, derivative collateral with our counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to our return of collateral received and/or our posting of collateral with our counterparties negatively impact our liquidity. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

Certain counterparties have posted or held cash collateral in support of these instruments. PEC had a cash collateral asset included in prepayments and other current assets of \$8 million and \$18 million on the PEC Consolidated Balance Sheet at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009, PEC had 57.1 million MMBtu notional of natural gas related to outstanding commodity derivative swaps that were entered into to hedge forecasted natural gas purchases. Due to changes in natural gas prices and settlements of financial hedge agreements since December 31, 2008, PEF's cash collateral asset included in derivative collateral posted on the PEF Balance Sheet was \$294 million at June 30, 2009, compared to \$335 million at December 31, 2008. At June 30, 2009, PEF had 227.0 million MMBtu notional of natural gas and 2.4 million barrels notional of oil related to outstanding commodity derivative swaps that were entered into to hedge forecasted oil and natural gas purchases.

CASH FLOW HEDGES

The Utilities designate a portion of commodity derivative instruments as cash flow hedges. From time to time we hedge exposure to market risk associated with fluctuations in the price of power for our forecasted sales. Realized gains and losses are recorded net in operating revenues. We also hedge exposure to market risk associated with fluctuations in the price of fuel for fleet vehicles. At June 30, 2009, we had 0.6 million gallons notional of gasoline

and 0.6 million gallons notional of heating oil related to outstanding commodity derivative swaps at each of PEC and PEF that were entered into to hedge forecasted gasoline and diesel purchases. Realized gains and losses are recorded net as part of fleet vehicle fuel costs. At June 30, 2009 and December 31, 2008, neither we nor the Utilities had material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for the three and six months ended June 30, 2009 and 2008.

At June 30, 2009 and December 31, 2008, the amount recorded in our or the Utilities' accumulated other comprehensive income related to commodity cash flow hedges was not material.

B. INTEREST RATE DERIVATIVES – FAIR VALUE OR CASH FLOW HEDGES

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by the counterparty, the exposure in these transactions is the cost of replacing the agreements at current market rates.

CASH FLOW HEDGES

At June 30, 2009, all open interest rate hedges will reach their mandatory termination dates within approximately three years. It is expected that in the next twelve months \$3 million and \$4 million, net of tax, related to terminated hedges, will be reclassified to interest expense at the Parent and PEC, respectively. The actual amounts that will be reclassified to earnings may vary from the expected amounts as a result of the timing of debt issuances at the Parent and the Utilities and changes in the market value of currently open interest rate hedges.

At December 31, 2008, the Parent had \$200 million notional of interest rate cash flow hedges. All of these forward starting swaps were terminated on March 16, 2009, in conjunction with the Parent's issuance of \$450 million of 7.05% Senior Notes due 2019. In January and June 2009, the Parent entered into forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances. At June 30, 2009, the Parent had \$100 million notional of interest rate cash flow hedges. In July 2009, the Parent entered into an additional \$50 million notional forward starting swap to mitigate exposure to interest rate risk in anticipation of future debt issuances.

At December 31, 2008, PEC had \$250 million notional of interest rate cash flow hedges. All of these forward starting swaps were terminated on January 8, 2009, in conjunction with PEC's issuance of \$600 million First Mortgage Bonds 5.30% Series due 2019. In January and June 2009, PEC entered into forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances. At June 30, 2009, PEC had \$100 million notional of interest rate cash flow hedges.

At December 31, 2008, PEF had no outstanding interest rate cash flow hedges. In January and June 2009, PEF entered into forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuances. At June 30, 2009, PEF had \$75 million notional of interest rate cash flow hedges.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At June 30, 2009, and December 31, 2008, neither we nor the Utilities had any outstanding positions in such contracts.

C. CONTINGENT FEATURES

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, we would be in violation of these provisions, and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

The aggregate fair value of all derivative instruments at PEC with credit risk-related contingent features that are in a liability position at June 30, 2009 is \$102 million, for which PEC has posted collateral of \$8 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered at June 30, 2009, PEC would have been required to post an additional \$94 million of collateral with its counterparties.

The aggregate fair value of all derivative instruments at PEF with credit risk-related contingent features that are in a liability position at June 30, 2009, is \$545 million, for which PEF has posted collateral of \$294 million in the normal course of business. If the credit risk-related contingent features underlying these agreements were triggered on June 30, 2009, PEF would have been required to post an additional \$237 million of collateral with its counterparties.

D. DERIVATIVE INSTRUMENT AND HEDGING ACTIVITY INFORMATION

Progress Energy

The following table presents the fair value of derivative instruments at June 30, 2009 and December 31, 2008:

(in millions)	June 30, 2009		December 31, 2008	
Instrument / Balance sheet location	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Commodity cash flow derivatives				
Derivative liabilities, current		\$—		\$(2)
Interest rate derivatives				
Prepayments and other current assets	\$4		\$—	
Other assets and deferred debits	9		—	
Derivative liabilities, current		—		(65)
Total derivatives designated as hedging instruments	13	—	—	(67)
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	6		9	
Other assets and deferred debits	10		1	
Derivative liabilities, current		(407)		(425)
Derivative liabilities, long-term		(240)		(263)
CVOs ^(b)				
Other liabilities and deferred credits		(26)		(34)
Fair value of derivatives not designated as hedging instruments	16	(673)	10	(722)
Fair value loss transition adjustment ^(c)				
Derivative liabilities, current		(2)		(1)
Derivative liabilities, long-term		(4)		(6)
Total derivatives not designated as hedging instruments	16	(679)	10	(729)
Total derivatives	\$29	\$(679)	\$10	\$(796)

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) As discussed in Note 15 of the 2008 Form 10-K, the Parent issued 98.6 million CVOs in connection with the acquisition of Florida Progress during 2000.

^(c) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contract (See Note 13).

The following tables present the effect of derivative instruments on other comprehensive income (OCI) (See Note 6C) and the Consolidated Statements of Income for the three months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments							
Instrument	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)
(in millions)	2009	2008		2009	2008		2009 2008
Interest rate derivatives ^(c)	\$8	\$13	Interest charges	\$(2)	\$—	Interest charges	\$— \$1

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments				
Instrument	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
(in millions)	2009	2008	2009	2008
Commodity derivatives	\$(185)	\$109	\$78	\$824

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
(in millions)		2009	2008
Commodity derivatives	Other, net	\$1	\$4
Fair value loss transition adjustment	Other, net	1	—
CVOs	Other, net	1	(2)
Total		\$3	\$2

The following tables present the effect of derivative instruments on OCI (see Note 6C) and the Consolidated Statements of Income for the six months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments							
Instrument	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)
(in millions)	2009	2008		2009	2008		2009 2008
Commodity cash flow derivatives	\$1	\$(1)		\$—	\$—		\$— \$—
Interest rate derivatives ^(c)	13	5	Interest charges	(3)	(1)	Interest charges	(3) 1
Total	\$14	\$4		\$(3)	\$(1)		\$(3) \$1

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments				
Instrument	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
(in millions)	2009	2008	2009	2008
Commodity derivatives	\$(312)	\$125	\$(265)	\$1,105

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
(in millions)		2009	2008
Commodity derivatives	Other, net	\$—	\$4
Fair value loss transition adjustment	Other, net	1	1
CVOs	Other, net	8	(2)
Total		\$9	\$3

The following table presents the fair value of derivative instruments at June 30, 2009 and December 31, 2008:

(in millions) Instrument / Balance sheet location	June 30, 2009		December 31, 2008	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Commodity cash flow derivatives				
Derivative liabilities, current		\$—		\$(1)
Interest rate derivatives				
Other assets and deferred debits	\$5		\$—	
Derivative liabilities, current		—		(35)
Total derivatives designated as hedging instruments	5	—	—	(36)
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Other assets and deferred debits	1		—	
Derivative liabilities, current		(46)		(45)
Other liabilities and deferred credits		(56)		(54)
Fair value of derivatives not designated as hedging instruments	1	(102)	—	(99)
Fair value loss transition adjustment ^(b)				
Derivative liabilities, current		(2)		(1)
Other liabilities and deferred credits		(4)		(6)
Total derivatives not designated as hedging instruments	1	(108)	—	(106)
Total derivatives	\$6	\$(108)	\$—	\$(142)

^(a) Substantially all of these contracts receive regulatory treatment.

^(b) In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the adoption of new accounting guidance for derivatives. The related liability is being amortized to earnings over the term of the related contract (See Note 13).

The following tables present the effect of derivative instruments on OCI (See Note 6C) and the Consolidated Statements of Income for the three months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments

Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre- tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2009	2008		2009	2008		2009	2008
Interest rate derivatives ^(c)	\$2	\$—	Interest charges	\$(2)	\$—	Interest charges	\$—	\$—

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments

Instrument (in millions)	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
	2009	2008	2009	2008
Commodity derivatives	\$(21)	\$6	\$6	\$110

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument (in millions)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		2009	2008
Commodity derivatives	Other, net	\$1	\$4
Fair value loss transition adjustment	Other, net	1	—
Total		\$2	\$4

The following tables present the effect of derivative instruments on OCI (See Note 6C) and the Consolidated Statements of Income for the six months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments							
Instrument	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)
(in millions)	2009	2008		2009	2008		2009 2008
Commodity cash flow derivatives	\$—	\$(2)		\$—	\$—		\$— \$—
Interest rate derivatives ^(c)	2	(3)	Interest charges	(2)	—	Interest charges	(2) —
Total	\$2	\$(5)		\$(2)	\$—		\$(2) \$—

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments				
Instrument	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
(in millions)	2009	2008	2009	2008
Commodity derivatives	\$(39)	\$6	\$(41)	\$141

^(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

^(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

Instrument	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
(in millions)		2009	2008
Commodity derivatives	Other, net	\$—	\$4
Fair value loss transition adjustment	Other, net	1	1
Total		\$1	\$5

The following table presents the fair value of derivative instruments at June 30, 2009 and December 31, 2008:

(in millions) Instrument / Balance sheet location	June 30, 2009		December 31, 2008	
	Asset	Liability	Asset	Liability
Derivatives designated as hedging instruments				
Interest rate derivatives				
Prepayments and other current assets	\$4		\$—	
Total derivatives designated as hedging instruments	4		—	
Derivatives not designated as hedging instruments				
Commodity derivatives ^(a)				
Prepayments and other current assets	6		9	
Other assets and deferred debits	9		1	
Derivative liabilities, current		\$(361)		\$(380)
Derivative liabilities, long-term		(184)		(209)
Total derivatives not designated as hedging instruments	15	(545)	10	(589)
Total derivatives	\$19	\$(545)	\$10	\$(589)

^(a) Substantially all of these contracts receive regulatory treatment.

The following tables present the effect of derivative instruments on OCI (See Note 6C) and the Statements of Income for the three months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments								
Instrument (in millions)	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre- tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
	2009	2008		2009	2008		2009	2008
Interest rate derivatives ^(c)	\$3	\$12	Interest charges	\$—	\$—	Interest charges	\$—	\$1

^(a) Effective portion.

^(b) Related to ineffective portion and amount excluded from effectiveness testing.

^(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments				
Instrument	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
(in millions)	2009	2008	2009	2008
Commodity derivatives	\$(164)	\$103	\$72	\$714

(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

The following tables present the effect of derivative instruments on OCI (See Note 6C) and the Statements of Income for the six months ended June 30, 2009 and 2008:

Derivatives Designated as Hedging Instruments								
Instrument	Amount of Gain or (Loss) Recognized in OCI, Net of Tax on Derivatives ^(a)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income ^(a)	Amount of Gain or (Loss), Net of Tax Reclassified from Accumulated OCI into Income ^(a)		Location of Gain or (Loss) Recognized in Income on Derivatives ^(b)	Amount of Pre-tax Gain or (Loss) Recognized in Income on Derivatives ^(b)	
(in millions)	2009	2008		2009	2008		2009	2008
Interest rate derivatives ^(c)	\$3	\$8	Interest charges	\$—	\$—	Interest charges	\$—	\$1

(a) Effective portion.

(b) Related to ineffective portion and amount excluded from effectiveness testing.

(c) Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges will be amortized to interest expense over the term of the related debt.

Derivatives Not Designated as Hedging Instruments				
Instrument	Realized Gain or (Loss) ^(a)		Unrealized Gain or (Loss) ^(b)	
(in millions)	2009	2008	2009	2008
Commodity derivatives	\$(273)	\$119	\$(224)	\$964

(a) After settlement of the derivatives and the fuel is consumed, gains or losses are passed through the fuel cost-recovery clause.

(b) Amounts are recorded in regulatory liabilities and assets, respectively, on the Balance Sheets until derivatives are settled.

12. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable PEC and PEF business segments are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina, South Carolina and Florida. These electric operations also distribute and sell electricity to other utilities, primarily on the east coast of the United States.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC and other miscellaneous nonregulated businesses that do not separately meet the quantitative thresholds for disclosure as separate reportable business segments. The profit or loss of our reportable segments plus the profit or loss of Corporate and Other represents our total income from continuing operations.

Income of discontinued operations is not included in the table presented below. The following information is for the three and six months ended June 30:

(in millions)	Revenues			Income (Loss)	Assets
	Unaffiliated	Intersegment	Total	From Continuing Operations	
Three Months Ended June 30, 2009					
PEC	\$1,076	\$—	\$1,076	\$95	\$13,376
PEF	1,234	—	1,234	119	13,074
Corporate and Other	2	55	57	(39)	19,227
Eliminations	—	(55)	(55)	—	(14,803)
Totals	\$2,312	\$—	\$2,312	\$175	\$30,874

Three Months Ended June 30, 2008					
PEC	\$1,048	\$—	\$1,048	\$104	
PEF	1,194	—	1,194	125	
Corporate and Other	2	94	96	(29)	
Eliminations	—	(94)	(94)	—	
Totals	\$2,244	\$—	\$2,244	\$200	

(in millions)	Revenues			Income (Loss)	Assets
	Unaffiliated	Intersegment	Total	From Continuing Operations	
<u>Six Months Ended June 30, 2009</u>					
PEC	\$2,254	\$—	\$2,254	\$222	\$13,376
PEF	2,496	—	2,496	207	13,074
Corporate and Other	4	120	124	(71)	19,227
Eliminations	—	(120)	(120)	—	(14,803)
Totals	\$4,754	\$—	\$4,754	\$358	\$30,874

Six Months Ended June 30, 2008					
PEC	\$2,116	\$—	\$2,116	\$226	
PEF	2,190	—	2,190	191	
Corporate and Other	4	176	180	(64)	
Eliminations	—	(176)	(176)	—	
Totals	\$4,310	\$—	\$4,310	\$353	

13. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. The components of other, net as shown on the accompanying Statements of Income were as follows:

<i>Progress Energy</i>				
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2009	2008	2009	2008
<u>Other income</u>				
Nonregulated energy and delivery services income	\$14	\$15	\$19	\$22
Fair value loss transition adjustment amortization (see Note 11)	1	—	1	1
Investment gains, net	4	—	4	—
Gains from equity investments, net	1	—	—	—
CVOs unrealized gain, net	1	—	8	—
Derivative mark-to-market gain, net	1	4	—	4
Other, net	2	—	—	—
Total other income	24	19	32	27
<u>Other expense</u>				
Nonregulated energy and delivery services expenses	6	5	10	9
Donations	2	7	5	11
Investment losses, net	—	1	—	3
Loss from equity investments, net	—	1	2	3
CVOs unrealized loss, net	—	2	—	2
Impairment loss	3	—	3	—
Other, net	—	—	—	1
Total other expense	11	16	20	29
Other, net – Progress Energy	\$13	\$3	\$12	\$(2)

<i>PEC</i>				
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(in millions)	2009	2008	2009	2008
<u>Other income</u>				
Nonregulated energy and delivery services income	\$9	\$9	\$9	\$12
Fair value loss transition adjustment amortization (see Note 11)	1	—	1	1
Derivative mark-to-market gain, net	1	4	—	4
Other, net	1	2	—	1
Total other income	12	15	10	18
<u>Other expense</u>				
Nonregulated energy and delivery services expenses	3	2	5	3
Donations	2	4	3	6
Investment losses, net	3	3	2	2
Loss from equity investments, net	—	—	2	2
Other, net	—	—	1	—
Total other expense	8	9	13	13
Other, net – PEC	\$4	\$6	\$(3)	\$5

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<u>Other income</u>				
Nonregulated energy and delivery services income	\$5	\$6	\$10	\$10
Investment gains, net	5	1	4	–
Other, net	–	–	–	2
Total other income	10	7	14	12
<u>Other expense</u>				
Nonregulated energy and delivery services expenses	2	3	4	6
Donations	1	3	3	5
Investment losses, net	–	–	–	1
Loss from equity investments, net	–	1	–	1
Total other expense	3	7	7	13
Other, net – PEF	\$7	\$–	\$7	\$(1)

14. ENVIRONMENTAL MATTERS

We are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. We believe that we are in substantial compliance with those environmental regulations currently applicable to our business and operations and believe we have all necessary permits to conduct such operations. Environmental laws and regulations frequently change and the ultimate costs of compliance cannot always be precisely estimated.

A. HAZARDOUS AND SOLID WASTE

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the EPA to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liability. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

The following table contains information about accruals for probable and estimable costs related to various environmental sites, which were included in other current liabilities and other liabilities and deferred credits on the Balance Sheets:

(in millions)	June 30, 2009	December 31, 2008
PEC		
MGP and other sites ^(a)	\$16	\$16
PEF		
Remediation of distribution and substation transformers	17	22
MGP and other sites	13	15
Total PEF environmental remediation accruals ^(b)	30	37
Total Progress Energy environmental remediation accruals	\$46	\$53

(a) Expected to be paid out over one to five years.

(b) Expected to be paid out over one to 15 years.

PROGRESS ENERGY

In addition to the Utilities' sites, discussed under "PEC" and "PEF" below, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See discussion under Guarantees in Note 15B).

PEC

The NCUC and the SCPSC have authorized PEC to defer and amortize certain environmental remediation expenses. Remediation expenses not authorized to be deferred are included in operation and maintenance (O&M) expense.

Including the Ward Transformer site located in Raleigh, N.C. (Ward), and MGP sites discussed below, for the three months ended June 30, 2009, PEC accrued approximately \$1 million and spent approximately \$2 million. For the six months ended June 30, 2009, PEC accrued approximately \$4 million and spent approximately \$4 million. For the three months ended June 30, 2008, PEC accrued approximately \$5 million and spent approximately \$2 million. For the six months ended June 30, 2008, PEC accrued approximately \$6 million and spent approximately \$4 million. These amounts primarily relate to the Ward site.

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time as one of the remaining sites is significantly larger than the sites for which we have historical experience. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

In 2004, the EPA advised PEC that it had been identified as a PRP at the Ward site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. At June 30, 2009 and December 31, 2008, PEC's recorded liability for the site was approximately \$7 million. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. On September 12, 2008, PEC filed an initial civil action against a number of PRPs seeking contribution for and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. On March 13, 2009, a subsequent action was filed against additional PRPs, and on April 30, 2009, suit was filed against the remaining approximately 160 PRPs. PEC has settled with a number of the PRPs and is in active settlement negotiations with others. With respect to the defendants that do not settle, the federal district court in which this matter is pending requires that alternative dispute resolution be pursued early in civil litigation. The outcome of these matters cannot be predicted.

On September 30, 2008, the EPA issued a Record of Decision for the operable unit for stream segments downstream from the Ward site (Ward OU1) and advised 61 parties, including PEC, of their identification as PRPs for Ward OU1 and for the operable unit for further investigation at the Ward facility and certain adjacent areas (Ward OU2).

The EPA's estimate for the selected remedy for Ward OU1 is approximately \$6 million. The EPA offered PEC and the other PRPs the opportunity to negotiate implementation of a response action for Ward OU1 and a remedial investigation and feasibility study for Ward OU2, as well as reimbursement to the EPA of approximately \$1 million for the EPA's past expenditures in addressing conditions at the site. On January 19, 2009, PEC and several of the other participating PRPs at the Ward site submitted a letter containing a good faith response to the EPA's special notice letter. Another group of PRPs separately submitted a good faith response, which the EPA advised would be used to negotiate implementation of the required actions. The other PRPs' good faith response was subsequently withdrawn. Discussions among representatives of certain PRPs, including PEC, and the EPA are ongoing. Although a loss is considered probable, an agreement among the PRPs for these matters has not been reached; consequently, it is not possible at this time to reasonably estimate the total amount of PEC's obligation, if any, for Ward OU1 and Ward OU2.

PEF

PEF has received approval from the FPSC for recovery through the environmental cost recovery clause (ECRC) of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed all distribution transformer sites and all substation sites for mineral oil-impacted soil caused by equipment integrity issues. Should further distribution transformer sites be identified outside of this population, the distribution O&M costs will not be recoverable through the ECRC. For the three and six months ended June 30, 2009, PEF accrued approximately \$2 million and spent approximately \$4 million and \$7 million, respectively, related to the remediation of transformers. For the three and six months ended June 30, 2008, PEF accrued approximately \$10 million and \$12 million, respectively, due to the identification of additional transformer sites and an increase in estimated remediation costs, and spent approximately \$8 million and \$14 million, respectively, related to the remediation of transformers. At June 30, 2009, PEF had recorded a regulatory asset for the probable recovery of these costs through the ECRC.

The accruals for MGP and other sites, in the previous table, relate to two former MGP sites and other sites associated with PEF that have required, or are anticipated to require, investigation and/or remediation. For the three and six months ended June 30, 2009, PEF made no material accruals and spent approximately \$2 million, which primarily related to its MGP sites. For the three and six months ended June 30, 2008, PEF made no material accruals or expenditures.

B. AIR AND WATER QUALITY

At June 30, 2009 and December 31, 2008, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the North Carolina Clean Smokestacks Act, enacted in June 2002 (Clean Smokestacks Act) and mercury regulation. PEC's and PEF's environmental compliance capital expenditures related to these regulations began in 2002 and 2005, respectively. At June 30, 2009, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$2.027 billion, including \$1.042 billion at PEC and \$985 million at PEF. At December 31, 2008, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.859 billion, including \$1.012 billion at PEC, which primarily relates to Clean Smokestacks Act projects, and \$847 million at PEF.

PEF participated in a coalition of Florida utilities that filed a challenge to the CAIR as it applied to Florida. PEF withdrew from the coalition during the fourth quarter of 2008. On July 11, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Court of Appeals) issued its decision on multiple challenges to the CAIR, including the Florida challenge, which vacated the CAIR in its entirety. On September 24, 2008, petitions for rehearing were filed by a number of parties. On December 23, 2008, the D.C. Court of Appeals remanded the CAIR without vacating the rule for the EPA to conduct further proceedings consistent with the D.C. Court of Appeals' prior opinion. The outcome of the EPA's further proceedings cannot be predicted. Because the D.C. Court of Appeals' December 23, 2008 decision remanded the CAIR, the current implementation of the CAIR continues to fulfill best available retrofit technology (BART) for SO₂ and nitrogen oxides (NO_x) for BART-affected units under the CAVR. Should this determination change as the CAIR is revised, CAVR compliance eventually may require consideration of NO_x and SO₂ emissions in addition to particulate matter emissions for BART-eligible units.

On February 8, 2008, the D.C. Court of Appeals vacated the delisting determination and the Clean Air Mercury Rule (CAMR). The three states in which the Utilities operate adopted mercury regulations implementing CAMR and submitted their state implementation rules to the EPA. It is uncertain how the decision that vacated the federal CAMR will affect the state rules; however, state-specific provisions are likely to remain in effect. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of these matters cannot be predicted.

PEF is continuing construction of its in-process emission control projects. On December 18, 2008, PEF and the FDEP announced an agreement under which PEF will retire Crystal River Units No. 1 and No. 2 (CR1 and CR2) as coal-fired units and complete construction of its emission control projects at CR4 and CR5. CR1 and CR2 will be retired after the second proposed nuclear unit at Levy completes its first fuel cycle, which was anticipated to be around 2020. On May, 1, 2009, PEF announced that it expects the construction schedule to shift later than the originally estimated 2016 to 2018 timeframe by a minimum of 20 months for the commercial operation dates of Levy. We are currently evaluating the impacts of the schedule shift. We cannot predict the outcome of this matter.

We account for emission allowances as inventory using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. The EPA is continuing to record allowance allocations under the CAIR NOx trading program, in some cases for years beyond the estimated two-year period for promulgation of a replacement rule. The EPA's continued recording of CAIR NOx allowance allocations does not guarantee that allowances will continue to be usable for compliance after a replacement rule is finalized or that they will continue to have value in the future. SO₂ emission allowances will be utilized to comply with existing Clean Air Act requirements. PEF's CAIR expenses, including NOx allowance inventory expense, are recoverable through the ECRC. At June 30, 2009 and December 31, 2008, PEC had approximately \$17 million and \$22 million, respectively, in SO₂ emission allowances and an immaterial amount of NOx emission allowances. At June 30, 2009 and December 31, 2008, PEF had approximately \$9 million and \$11 million, respectively, in SO₂ emission allowances and approximately \$54 million and \$65 million, respectively, in NOx emission allowances.

In June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NOx and SO₂ from their North Carolina coal-fired power plants in phases by 2013. Two of PEC's largest coal-fired generating units (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO₂ removal from its larger coal-fired units, including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance for the jointly owned units, in 2005 PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately \$38 million. PEC recorded a related liability for the joint owner's share of estimated costs in excess of the contract amount. The terms of the agreement place no limit on PEC's maximum remaining liability; however PEC estimates its remaining exposure to be \$7 million as of June 30, 2009. At June 30, 2009 and December 31, 2008, the amount of the liability was \$7 million and \$10 million, respectively, based upon the respective estimates for the remaining Clean Smokestacks Act compliance costs. During the three and six months ended June 30, 2009, PEC accrued approximately \$2 million and spent approximately \$1 million and \$5 million, respectively, that exceeded the joint owner limit (See Note 15B). Because PEC has taken a system-wide compliance approach, its North Carolina retail ratepayers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail ratepayers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. On September 5, 2008, the NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million, including eligible compliance costs in excess of the joint owner's share, as the projects are closed to plant in service.

15. COMMITMENTS AND CONTINGENCIES

Contingencies and significant changes to the commitments discussed in Note 22 in the 2008 Form 10-K are described below.

A. PURCHASE OBLIGATIONS

As part of our ordinary course of business, we and the Utilities enter into various long- and short-term contracts for fuel requirements at our generating plants. Significant changes from the commitment amounts reported in Note 22A in the 2008 Form 10-K can result from new contracts, changes in existing contracts along with the impact of fluctuations in current estimates of future market prices for those contracts that are market price indexed. In most cases, these contracts contain provisions for price adjustments, minimum purchase levels, and other financial commitments. Additional commitments for fuel and related transportation will be required to supply the Utilities' future needs.

PEF

On May 1, 2009, PEF announced that it expects the construction schedule for Levy to shift. Although the overall schedule impact is not certain at this time, PEF expects the schedule for the commercial operation of Levy to shift later than the 2016 to 2018 timeframe by a minimum of 20 months. We anticipate amending the Levy Engineering, Procurement, and Construction agreement due to the schedule shift but cannot predict the impact, if any, such amendment might have on the project's total cost. However, consistent with nuclear cost-recovery filings with the FPSC (See Note 4B), PEF anticipates that approximately \$1 billion of the construction obligations disclosed in Note 22A in the 2008 Form 10-K for the three-year period following December 31, 2008, could be deferred to later periods as a result of the schedule shift.

During the second quarter of 2009, PEF entered into conditional agreements for firm pipeline transportation capacity to support PEF's gas supply needs for the period from April 2011 through March 2036. The total cost to PEF associated with these agreements is estimated to be approximately \$281 million. These agreements are subject to several conditions precedent, including various federal regulatory approvals, the completion and commencement of operation of necessary related interstate natural pipeline system expansions, and other contractual provisions. Due to the conditions of these agreements, the estimated costs associated with these agreements are not currently included in PEF's fuel and purchased power commitments.

B. GUARANTEES

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties. Such agreements include guarantees, standby letters of credit and surety bonds. At June 30, 2009, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Balance Sheets.

At June 30, 2009, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification (See Note 14B). The terms of the agreement place no limit on PEC's maximum remaining liability; however PEC estimates its remaining exposure to be \$7 million as of June 30, 2009. Pursuant to a September 2008 NCUC order, PEC is including the indemnification costs as allowable costs to be included in rate base for ratemaking purposes (See Note 14B). At June 30, 2009, our estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was \$458 million, including \$32 million at PEF. At June 30, 2009 and December 31, 2008, we have recorded liabilities related to guarantees and indemnifications to third parties of approximately \$58 million and \$61 million, respectively. These amounts include \$7 million and \$10 million, respectively, for PEC and \$8 million for PEF at

June 30, 2009, and December 31, 2008. During the three and six months ended June 30, 2009, PEC accrued approximately \$2 million and spent approximately \$1 million and \$5 million, respectively, that exceeded the joint owner limit. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent and a subsidiary have issued \$300 million of guarantees for certain payments of two wholly owned indirect subsidiaries. See Note 16 for additional information.

C. OTHER COMMITMENTS AND CONTINGENCIES

SPENT NUCLEAR FUEL MATTERS

Pursuant to the Nuclear Waste Policy Act of 1982, the Utilities entered into contracts with the United States Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims. The Utilities have asserted nearly \$91 million in damages incurred between January 31, 1998 and December 31, 2005; the time period set by the court for damages in this case. The Utilities will be free to file subsequent damage claims as they incur additional costs.

A trial was held in November 2007 in the United States Court of Federal Claims, and closing arguments were presented on April 4, 2008. On May 19, 2008, the Utilities received a ruling from the Trial Court awarding \$83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. The United States Department of Justice requested that the Trial Court reconsider its ruling. The Trial Court did reconsider its ruling and reduced the damage award by an immaterial amount. On August 15, 2008, the Department of Justice appealed the Trial Court's ruling to the D.C. Court of Appeals. Oral arguments were held on May 4, 2009. On July 21, 2009, the D.C. Court of Appeals vacated and remanded the calculation of damages back to the Trial Court but affirmed the portion of damages awarded that were directed to overhead costs and other indirect expenses. The Trial Court has not yet scheduled further proceedings. In the event that the Utilities recover damages in this matter, such recovery is not expected to have a material impact on the Utilities' results of operations given the anticipated regulatory and accounting treatment. However, the Utilities cannot predict the outcome of this matter.

SYNTHETIC FUELS MATTERS

A number of our subsidiaries and affiliates are parties to two lawsuits arising out of an Asset Purchase Agreement dated as of October 19, 1999, and amended as of August 23, 2000, (the Asset Purchase Agreement) by and among U.S. Global, LLC (Global); Earthco; certain affiliates of Earthco; EFC Synfuel LLC (which was owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (renamed Sandy River Synfuel LLC) (collectively, the Progress Affiliates). Global has asserted (1) that pursuant to the Asset Purchase Agreement, it is entitled to an interest in two synthetic fuels facilities previously owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities, (2) that it is entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities and (3) a number of tort claims are related to the contracts.

The first suit, *U.S. Global, LLC v. Progress Energy, Inc. et al.* (the Florida Global Case), asserts the above claims in a case filed in the Circuit Court for Broward County, Fla., in March 2003, and requests an unspecified amount of compensatory damages, as well as declaratory relief. The Progress Affiliates have answered the Complaint by generally denying all of Global's substantive allegations and asserting numerous substantial affirmative defenses.

The second suit, *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC* (the North Carolina Global Case), was filed by the Progress Affiliates in the Superior Court for Wake County, N.C., seeking declaratory relief consistent with our interpretation of the Asset Purchase Agreement. Global was served with the North Carolina Global Case on April 17, 2003.

On May 15, 2003, Global moved to dismiss the North Carolina Global Case for lack of personal jurisdiction over Global. In the alternative, Global requested that the court decline to exercise its discretion to hear the Progress Affiliates' declaratory judgment action. On August 7, 2003, the Wake County Superior Court denied Global's motion to dismiss, but stayed the North Carolina Global Case, pending the outcome of the Florida Global Case. The Progress Affiliates appealed the superior court's order staying the case. By order dated September 7, 2004, the North Carolina Court of Appeals dismissed the Progress Affiliates' appeal. Since that time, the parties have been engaged in discovery in the Florida Global Case.

In December 2006, we reached agreement with Global to settle an additional claim in the suit related to amounts due to Global that were placed in escrow pursuant to a defined tax event. Upon the successful resolution of the IRS audit of the Earthco synthetic fuels facilities in 2006, and pursuant to a settlement agreement, the escrow totaling \$42 million at December 31, 2006, was paid to Global in January 2007.

In January 2008, Global agreed to simplify the Florida action by dismissing the tort claims. The Florida Global Case continues now under contract theories alone. The case is scheduled to go to trial in September 2009. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

16. CONDENSED CONSOLIDATING STATEMENTS

As discussed in Note 23 in the 2008 Form 10-K, we have guaranteed certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.) since September 2005. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and as disclosed in Note 11B in the 2008 Form 10-K, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a variable-interest entity for which we are not the primary beneficiary. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

Presented below are the condensed consolidating Statements of Income, Balance Sheets and Statements of Cash Flows as required by Rule 3-10 of Regulation S-X. In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only, which is primarily comprised of its wholly owned subsidiary PEF. The Non-Guarantor Subsidiary column includes the consolidated financial results of our wholly owned subsidiary PEC. The Other column includes the consolidated financial results of all other non-guarantor subsidiaries and elimination entries for all intercompany transactions. Financial statements for PEC and PEF are separately presented elsewhere in this Form 10-Q. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the subsidiary guarantor or other non-guarantor subsidiaries operated as independent entities.

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$1,236	\$1,076	\$—	\$2,312
Operating expenses					
Fuel used in electric generation	—	443	383	—	826
Purchased power	—	200	57	—	257
Operation and maintenance	2	204	283	(5)	484
Depreciation, amortization and accretion	—	105	118	3	226
Taxes other than on income	—	80	51	(1)	130
Other	—	8	2	—	10
Total operating expenses	2	1,040	894	(3)	1,933
Operating (loss) income	(2)	196	182	3	379
Other income (expense)					
Interest income	3	1	1	(3)	2
Allowance for equity funds used during construction	—	29	7	—	36
Other, net	1	6	4	2	13
Total other income (expense), net	4	36	12	(1)	51
Interest charges					
Interest charges	58	71	52	—	181
Allowance for borrowed funds used during construction	—	(9)	(3)	—	(12)
Total interest charges, net	58	62	49	—	169
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(56)	170	145	2	261
Income tax (benefit) expense	(26)	55	51	6	86
Equity in earnings of consolidated subsidiaries	204	—	—	(204)	—
Income (loss) from continuing operations	174	115	94	(208)	175
Discontinued operations, net of tax	—	—	—	(1)	(1)
Net income (loss)	174	115	94	(209)	174
Net loss (income) attributable to noncontrolling interests, net of tax	—	—	1	(1)	—
Net income (loss) attributable to controlling interests	\$174	\$115	\$95	\$(210)	\$174

Condensed Consolidating Statement of Income
Three Months Ended June 30, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$1,196	\$1,048	\$—	\$2,244
Operating expenses					
Fuel used in electric generation	—	373	323	—	696
Purchased power	—	258	72	—	330
Operation and maintenance	2	217	275	(6)	488
Depreciation, amortization and accretion	—	76	129	3	208
Taxes other than on income	—	76	49	—	125
Other	—	(4)	(5)	—	(9)
Total operating expenses	2	996	843	(3)	1,838
Operating (loss) income	(2)	200	205	3	406
Other income (expense)					
Interest income	2	2	2	(1)	5
Allowance for equity funds used during construction	—	22	5	—	27
Other, net	(2)	—	6	(1)	3
Total other income (expense), net	—	24	13	(2)	35
Interest charges					
Interest charges	50	52	52	—	154
Allowance for borrowed funds used during construction	—	(6)	(2)	—	(8)
Total interest charges, net	50	46	50	—	146
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(52)	178	168	1	295
Income tax (benefit) expense	(22)	53	64	—	95
Equity in earnings of consolidated subsidiaries	235	—	—	(235)	—
Income (loss) from continuing operations	205	125	104	(234)	200
Discontinued operations, net of tax	—	7	—	(2)	5
Net income (loss)	205	132	104	(236)	205
Net income (loss) attributable to controlling interests	\$205	\$132	\$104	\$(236)	\$205

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$2,500	\$2,254	\$—	\$4,754
Operating expenses					
Fuel used in electric generation	—	955	825	—	1,780
Purchased power	—	360	114	—	474
Operation and maintenance	3	406	542	(14)	937
Depreciation, amortization and accretion	—	265	235	6	506
Taxes other than on income	—	168	105	—	273
Other	—	10	2	—	12
Total operating expenses	3	2,164	1,823	(8)	3,982
Operating (loss) income	(3)	336	431	8	772
Other income (expense)					
Interest income	6	2	3	(5)	6
Allowance for equity funds used during construction	—	59	16	—	75
Other, net	8	6	(3)	1	12
Total other income (expense), net	14	67	16	(4)	93
Interest charges					
Interest charges	110	143	109	(2)	360
Allowance for borrowed funds used during construction	—	(18)	(6)	—	(24)
Total interest charges, net	110	125	103	(2)	336
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(99)	278	344	6	529
Income tax (benefit) expense	(39)	76	122	12	171
Equity in earnings of consolidated subsidiaries	415	—	—	(415)	—
Income (loss) from continuing operations	355	202	222	(421)	358
Discontinued operations, net of tax	1	(1)	—	(1)	(1)
Net income (loss)	356	201	222	(422)	357
Net (income) loss attributable to noncontrolling interests, net of tax	—	(1)	1	(1)	(1)
Net income (loss) attributable to controlling interests	\$356	\$200	\$223	\$(423)	\$356

Condensed Consolidating Statement of Income
Six Months Ended June 30, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Operating revenues	\$—	\$2,194	\$2,116	\$—	\$4,310
Operating expenses					
Fuel used in electric generation	—	714	679	—	1,393
Purchased power	—	441	121	—	562
Operation and maintenance	2	420	523	(14)	931
Depreciation, amortization and accretion	—	152	255	7	414
Taxes other than on income	—	147	99	—	246
Other	—	(2)	(6)	1	(7)
Total operating expenses	2	1,872	1,671	(6)	3,539
Operating (loss) income	(2)	322	445	6	771
Other income (expense)					
Interest income	6	2	7	(3)	12
Allowance for equity funds used during construction	—	40	10	—	50
Other, net	(2)	(3)	5	(2)	(2)
Total other income (expense), net	4	39	22	(5)	60
Interest charges					
Interest charges	98	109	110	(2)	315
Allowance for borrowed funds used during construction	—	(12)	(4)	—	(16)
Total interest charges, net	98	97	106	(2)	299
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(96)	264	361	3	532
Income tax (benefit) expense	(40)	80	134	5	179
Equity in earnings of consolidated subsidiaries	470	—	—	(470)	—
Income (loss) from continuing operations	414	184	227	(472)	353
Discontinued operations, net of tax	—	64	—	2	66
Net income (loss)	414	248	227	(470)	419
Net income attributable to noncontrolling interests, net of tax	—	(5)	—	—	(5)
Net income (loss) attributable to controlling interests	\$414	\$243	\$227	\$(470)	\$414

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$—	\$9,286	\$9,570	\$118	\$18,974
Current assets					
Cash and cash equivalents	365	68	18	1	452
Notes receivable from affiliated companies	363	100	130	(593)	—
Regulatory assets	—	278	148	—	426
Derivative collateral posted	—	294	8	—	302
Income taxes receivable	1	35	32	4	72
Prepayments and other current assets	4	1,235	1,197	17	2,453
Total current assets	733	2,010	1,533	(571)	3,705
Deferred debits and other assets					
Investment in consolidated subsidiaries	12,519	—	—	(12,519)	—
Regulatory assets	—	1,376	1,247	—	2,623
Goodwill	—	—	—	3,655	3,655
Other assets and deferred debits	165	629	1,026	97	1,917
Total deferred debits and other assets	12,684	2,005	2,273	(8,767)	8,195
Total assets	\$13,417	\$13,301	\$13,376	\$(9,220)	\$30,874
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$9,289	\$4,067	\$4,354	\$(8,421)	\$9,289
Noncontrolling interests	—	3	3	—	6
Total equity	9,289	4,070	4,357	(8,421)	9,295
Preferred stock of subsidiaries	—	34	59	—	93
Long-term debt, affiliate	—	309	—	(37)	272
Long-term debt, net	3,243	3,882	3,709	—	10,834
Total capitalization	12,532	8,295	8,125	(8,458)	20,494
Current liabilities					
Current portion of long-term debt	100	300	—	—	400
Short-term debt	500	—	—	—	500
Notes payable to affiliated companies	—	623	—	(623)	—
Other current liabilities	250	1,382	736	(50)	2,318
Total current liabilities	850	2,305	736	(673)	3,218
Deferred credits and other liabilities					
Noncurrent income tax liabilities	—	174	1,162	(395)	941
Regulatory liabilities	—	1,077	1,082	117	2,276
Other liabilities and deferred credits	35	1,450	2,271	189	3,945
Total deferred credits and other liabilities	35	2,701	4,515	(89)	7,162
Total capitalization and liabilities	\$13,417	\$13,301	\$13,376	\$(9,220)	\$30,874

Condensed Consolidating Balance Sheet
December 31, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
ASSETS					
Utility plant, net	\$—	\$8,790	\$9,385	\$118	\$18,293
Current assets					
Cash and cash equivalents	88	73	18	1	180
Notes receivable from affiliated companies	34	44	55	(133)	—
Regulatory assets	—	326	207	—	533
Derivative collateral posted	—	335	18	—	353
Income taxes receivable	34	56	98	6	194
Prepayments and other current assets	14	1,082	1,174	(10)	2,260
Total current assets	170	1,916	1,570	(136)	3,520
Deferred debits and other assets					
Investment in consolidated subsidiaries	11,924	—	—	(11,924)	—
Regulatory assets	—	1,324	1,243	—	2,567
Goodwill	—	—	—	3,655	3,655
Other assets and deferred debits	155	613	967	103	1,838
Total deferred debits and other assets	12,079	1,937	2,210	(8,166)	8,060
Total assets	\$12,249	\$12,643	\$13,165	\$(8,184)	\$29,873
CAPITALIZATION AND LIABILITIES					
Equity					
Common stock equity	\$8,687	\$3,519	\$4,301	\$(7,820)	\$8,687
Noncontrolling interests	—	3	4	(1)	6
Total equity	8,687	3,522	4,305	(7,821)	8,693
Preferred stock of subsidiaries	—	34	59	—	93
Long-term debt, affiliate	—	309	—	(37)	272
Long-term debt, net	2,696	4,182	3,509	—	10,387
Total capitalization	11,383	8,047	7,873	(7,858)	19,445
Current liabilities					
Short-term debt	569	371	110	—	1,050
Notes payable to affiliated companies	—	206	—	(206)	—
Other current liabilities	251	1,344	855	(14)	2,436
Total current liabilities	820	1,921	965	(220)	3,486
Deferred credits and other liabilities					
Noncurrent income tax liabilities	1	118	1,111	(412)	818
Regulatory liabilities	—	1,076	987	118	2,181
Other liabilities and deferred credits	45	1,481	2,229	188	3,943
Total deferred credits and other liabilities	46	2,675	4,327	(106)	6,942
Total capitalization and liabilities	\$12,249	\$12,643	\$13,165	\$(8,184)	\$29,873

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2009

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Net cash provided (used) by operating activities	\$169	\$454	\$646	\$(174)	\$1,095
Investing activities					
Gross property additions	—	(770)	(402)	—	(1,172)
Nuclear fuel additions	—	(18)	(42)	—	(60)
Purchases of available-for-sale securities and other investments	—	(420)	(517)	(45)	(982)
Proceeds from available-for-sale securities and other investments	—	423	492	45	960
Changes in advances to affiliated companies	(329)	(56)	(75)	460	—
Contributions to consolidated subsidiaries	(347)	—	—	347	—
Return of investment in consolidated subsidiaries	12	—	—	(12)	—
Other investing activities	—	(1)	—	(2)	(3)
Net cash (used) provided by investing activities	(664)	(842)	(544)	793	(1,257)
Financing activities					
Issuance of common stock	545	—	—	—	545
Dividends paid on common stock	(347)	—	—	—	(347)
Dividends paid to parent	—	(1)	(200)	201	—
Payments of short-term debt with original maturities greater than 90 days	(29)	—	—	—	(29)
Net decrease in short-term debt	(140)	(371)	(110)	—	(621)
Proceeds from issuance of long-term debt, net	742	—	595	—	1,337
Retirement of long-term debt	—	—	(400)	—	(400)
Cash distributions to noncontrolling interests	—	(3)	—	(1)	(4)
Changes in advances from affiliated companies	—	417	—	(417)	—
Contributions from parent	—	343	15	(358)	—
Other financing activities	1	(2)	(2)	(44)	(47)
Net cash provided (used) by financing activities	772	383	(102)	(619)	434
Net increase (decrease) in cash and cash equivalents	277	(5)	—	—	272
Cash and cash equivalents at beginning of period	88	73	18	1	180
Cash and cash equivalents at end of period	\$365	\$68	\$18	\$1	\$452

Condensed Consolidating Statement of Cash Flows
Six Months Ended June 30, 2008

(in millions)	Parent	Subsidiary Guarantor	Non- Guarantor Subsidiary	Other	Progress Energy, Inc.
Net cash (used) provided by operating activities	\$(53)	\$856	\$563	\$(9)	\$1,357
Investing activities					
Gross property additions	—	(921)	(331)	(8)	(1,260)
Nuclear fuel additions	—	(1)	(42)	—	(43)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	61	4	(1)	64
Proceeds from sales of assets to affiliated companies	—	10	—	(10)	—
Purchases of available-for-sale securities and other investments	—	(418)	(337)	(81)	(836)
Proceeds from available-for-sale securities and other investments	—	418	321	77	816
Changes in advances to affiliated companies	129	31	(39)	(121)	—
Contributions to consolidated subsidiaries	(98)	—	—	98	—
Return of investment in consolidated subsidiaries	—	10	—	(10)	—
Other investing activities	(7)	3	(10)	(1)	(15)
Net cash provided (used) by investing activities	24	(807)	(434)	(57)	(1,274)
Financing activities					
Issuance of common stock	42	—	—	—	42
Dividends paid on common stock	(320)	—	—	—	(320)
Dividends paid to parent	—	(3)	—	3	—
Payments of short-term debt with original maturities greater than 90 days	(176)	—	—	—	(176)
Net increase in short-term debt	318	—	—	—	318
Proceeds from issuance of long-term debt, net	—	1,476	322	—	1,798
Retirement of long-term debt	—	(127)	(300)	—	(427)
Cash distributions to noncontrolling interests	—	(85)	—	—	(85)
Changes in advances from affiliated companies	—	(56)	(154)	210	—
Contributions from parent	—	85	14	(99)	—
Other financing activities	—	1	(18)	(48)	(65)
Net cash (used) provided by financing activities	(136)	1,291	(136)	66	1,085
Net (decrease) increase in cash and cash equivalents	(165)	1,340	(7)	—	1,168
Cash and cash equivalents at beginning of period	185	43	25	2	255
Cash and cash equivalents at end of period	\$20	\$1,383	\$18	\$2	\$1,423

EXHIBIT B(1)

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

PROGRESS ENERGY FLORIDA, INC.
 PRELIMINARY PROJECTION OF SOURCES AND USES OF FUNDS
 (In Millions)

	12 Months Ending December 31, 2010
OPERATING ACTIVITIES	\$ <u>1,005</u>
INVESTING ACTIVITIES:	
Construction Expenditures	<u>(1,598)</u>
Other Investing Activities	<u>(37)</u>
Total	<u>(1,635)</u>
FINANCING ACTIVITIES:	
Issuance / (Retirement) of Long-Term Debt	<u>445</u>
Increase (Decrease) in Short-Term Debt	<u>(28)</u>
Equity Contributions from / (Dividends to) Parent, net	<u>215</u>
Preferred Dividends	<u>(2)</u>
Total	<u>630</u>
TOTAL INCREASE (DECREASE) IN CASH	\$ <u><u>0</u></u>

EXHIBIT B(2)

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

PROGRESS ENERGY FLORIDA, INC.
PRELIMINARY CONSTRUCTION EXPENDITURES FOR 2010
(In Millions)

<u>BUDGET CLASSIFICATION</u>	<u>PRELIMINARY BUDGET</u>
PRODUCTION PLANT	906
TRANSMISSION PLANT	355
DISTRIBUTION PLANT	226
GENERAL PLANT	<u>111</u>
TOTAL LESS AFUDC	\$ <u>1,598</u>

EXHIBIT C

DOCUMENT NUMBER-DATE

10441 OCT-98

FPSC-COMMISSION CLERK

PROGRESS ENERGY FLORIDA, INC.
CAPITAL STOCK AND LONG-TERM DEBT
As Of September 30, 2009

<u>Title of Class</u>	<u>Shares Authorized</u>	<u>Shares Outstanding</u>	<u>Amount Outstanding</u>
Common Stock without par value	60,000,000	100 ¹	N/A
Cumulative Preferred Stock (Par Value \$100):	4,000,000		
4.00% Series		39,980	\$ 3,998,000
4.40% Series		75,000	7,500,000
4.58% Series		99,990	9,999,000
4.60% Series		39,997	3,999,700
4.75% Series		80,000	<u>8,000,000</u>
Total Cumulative Preferred Stock Outstanding			\$ <u>33,496,700</u>
First Mortgage Bonds:			
4.50% Series, due 2010			\$ 300,000,000
6.65% Series, due 2011			300,000,000
4.80% Series, due 2013			425,000,000
5.10% Series, due 2015			300,000,000
5.80% Series, due 2017			250,000,000
5.65% Series, due 2018			500,000,000
5.90% Series, due 2033			225,000,000
6.35% Series, due 2037			500,000,000
6.40% Series, due 2038			1,000,000,000
Citrus County 2002, Series - A, Due 2027			108,550,000
Citrus County 2002, Series - B, Due 2022			100,115,000
Citrus County 2002, Series - C, Due 2018			<u>32,200,000</u>
Total First Mortgage Bonds Outstanding			<u>\$4,040,865,000</u>

¹All of the Company's outstanding shares of common stock are owned beneficially and of record by the Company's parent, Florida Progress Corporation.

Senior Unsecured Notes:

Total Senior Unsecured Notes Outstanding	\$ _____ - _____
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Medium-Term Notes:

6.75%, due 2028	<u>150,000,000</u>
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Total Medium-Term Notes Outstanding	\$ <u>150,000,000</u>
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Total Long-Term Debt Outstanding:	<u><u>\$4,190,865,000</u></u>
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